

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

Manager	Harry Fraser
Launch date	01 October 2007
Domicile	Ireland
Structure	UCITS
Base currency	USD
Dealing	Daily
Min. investment	£10,000
Benchmarks	MSCI World Small Mid Cap MSCI World
Fund size	£29.1m
Strategy size	£29.1m

“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.

All data as at 29 March 2024.
Source: Oldfield Partners.

Fund performance (GBP, %)

	1 month	QTD	YTD	1 year	3 years	5 years	Annualised Since 2012*
■ Fund (I shares)	+1.6	-3.2	-3.2	+8.4	+2.9	+8.2	+10.4
■ MSCI World Small Mid Cap	+4.0	+6.9	+6.9	+14.5	+5.6	+9.0	+11.6
■ MSCI World	+3.2	+10.1	+10.1	+22.4	+11.9	+12.7	+13.0

Preceding five calendar years performance	2023	2022	2021	2020	2019
Fund (I shares)	+23.4	-6.4	+8.5	+4.5	+30.9
MSCI World Small Mid Cap	+9.6	-9.3	+17.7	+12.5	+21.9
MSCI World	+17.3	-8.4	+22.9	+12.6	+22.7

The Class I shares (I USD) 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.

Portfolio breakdown

Top 10 holdings (%)

	Weight	MTD*	QTD*
J D Wetherspoon	8.8	-3.0	-9.3
Serica Energy	7.3	+8.6	-17.9
Jet2	7.1	+3.4	+15.5
First Pacific	6.2	+24.7	+27.8
Trigano	5.1	+8.9	+9.8
Draegerwerk Pref	5.0	+4.7	-4.2
AO World	4.8	+8.6	+2.5
Pason	4.8	+14.4	-3.7
Frasers Group	4.6	+0.2	-10.9
Warsaw Stock Exchange	4.4	-3.7	-0.9

*Total return in GBP, reflects ownership period.

Characteristics

	Fund	Benchmark
P/E ratio (fwd)	8.2	17.1
P/B ratio (hist)	1.2	2.0
Gross div. yield (fwd)	3.0	2.9
Active share (%)**	99.9	

**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.

Country breakdown (%)

United Kingdom	34.3	<div></div>
United States	12.3	<div></div>
Canada	10.4	<div></div>
Germany	8.9	<div></div>
China/Hong Kong	6.2	<div></div>
Japan	5.5	<div></div>
France	5.1	<div></div>
Poland	4.4	<div></div>
Switzerland	4.0	<div></div>
Greece	2.9	<div></div>
South Korea	2.9	<div></div>
Italy	2.8	<div></div>
Cash	0.3	<div></div>

Sector breakdown (%)

Consumer Discretionary	26.1	<div></div>
Energy	20.6	<div></div>
Industrials	13.2	<div></div>
Consumer Staples	13.0	<div></div>
Diversified Financials	7.6	<div></div>
Real Estate	5.7	<div></div>
Health Care	5.0	<div></div>
Insurance	3.6	<div></div>
Banks	2.9	<div></div>
Materials	2.0	<div></div>
Cash	0.3	<div></div>

Fund manager commentary

Over the last six years the MSCI World Index has delivered almost double the return of the MSCI Small Cap Index despite slower earnings growth over that period. This relative derating of smaller companies has resulted in an unusually large number of opportunities for this strategy, and we made another new investment in the quarter: Winpak, discussed later in this newsletter. This strategy trades on a near record low valuation at just eight times earnings.

Although we did continue to suffer from the derating of small caps in the quarter, the main reason for our poor performance was a major profit warning by HelloFresh. Management downgraded profit expectations for 2024 by 30% as they continued to lose customers in their core meal kit division. The company abandoned its 2025 guidance of €10bn in sales and €1bn in EBITDA. There was some positive news with the Ready-To-Eat (RTE) business still growing strongly reaching €1.4bn in sales in 2023 and expected to be nearly €2bn in 2024. The growth in RTE is expected to more than offset the fall in the core meal kit business, resulting in topline growth for 2024, but the deleveraging effect in meal kits will result in materially lower profits.

Despite poor recent performance, the management team at HelloFresh have done an extraordinary job over the last decade building a business from a standing start to a profitable €8bn revenue business against intense competition. The company is now by far the leader in meal kits globally, more than 10x the size of its nearest competitor. Competitors such as Blue Apron, Gousto and Marley Spoon have had billions invested in them but remain severely loss making, potentially facing bankruptcy.

It may be that the meal kit business will be smaller than we originally expected; nevertheless, HelloFresh will continue to dominate that niche with a core customer base that loves its product. The company remains profitable and free cash flow generative. It's market cap of around €1bn would only make sense if group margins end up at just 1%. We think this is highly unlikely given that their mature markets enjoy margins of around 10%. The company is buying back shares every day and, once the meal kit business stabilises, we expect the company to be valued much more highly.

JD Wetherspoon (JDW) was also weak in the quarter having been one of the best performers last year. JDW reported results for the half-year ending January 2024 revealing strong like-for-like sales growth of 10% compared to the prior year. Their competitive price position remains as strong as ever and they continue to deliver market leading sales growth. Whilst sales have recovered from the pandemic, operating margins of 6.8% are still below pre-COVID levels of 7-8%, reflecting higher staff and energy costs.

The company's net debt of under £700 million is below pre-COVID levels of around £800 million. The company owns 71% of its pubs worth at least £1.5bn, providing significant backing to the debt. The company bought back 3.5% of issued shares during December and January which should prove to be accretive for shareholders as the shares are being repurchased significantly below our estimation of fair value.

In terms of valuation, we see a path to JDW generating net income of over £100 million from its existing pubs in the near term. This puts the shares on less than nine times recovered earnings at the current market capitalisation. We believe this is far too low for a business with a good balance sheet, sustainable competitive advantages, a track-record of profitable growth, and which is being run by a proven owner-operator.

We initiated an investment in Winpak, a Canadian packaging company founded in 1978. Winpak operates twelve manufacturing facilities across North America, producing flexible packaging, rigid packaging and packaging machinery. More than 90% of revenues are to food & beverage end-markets (mostly perishable foods); 80% of revenues are from specialised products where they are the #1 or #2 player. Customers choose Winpak because of product quality, reliability and service. The customer base is well diversified with the largest customer being less than 10% of revenues and the second largest less than 5% and customer relationships are generally sticky due to high switching costs.

Winpak's packaging verticals have historically been very predictable and non-cyclical: since 1998, the biggest revenue decline was 2% in 2020 and 1% in 2009. Over the last 20 years, they have grown volumes ~4% per year and management are targeting volume growth of 3-6% per year going forward, with earnings growth expected to exceed revenue growth. Winpak has no debt and \$540m, in cash which is nearly 30% of its market capitalisation.

The company announced a buyback in February, the first time in its 46 year history.

It is frustrating to report such a poor quarter, particularly as it was largely due to HelloFresh which is a recent holding; however, we continue to see positive developments broadly across the strategy with trailing earnings already 4% higher than at year end and expected to be 15% higher by the end of 2024. The strategy trades on just eight times earnings and we have over 110% upside to our target prices.

Share class details

Share class	AMC*	OCF**	SEDOL	Bloomberg	ISIN	Price
I USD	0.65%	1.00%	BD3H6C2	OCUSCIU ID	IE00BD3H6C20	US\$284.93
A USD	1.00%	1.35%	BD3H688	OVUSCAU ID	IE00BD3H6883	US\$187.77
I GBP	0.65%	1.00%	BL53TS1	OVGSCOU ID	IE000SKL79B0	£106.05

*AMC – Annual management charge

**OCF – Ongoing charge figure

Performance summary of all share classes

Performance in USD terms

	1 month	YTD	1 year	Annualised		
				3 years	5 years	2012*
I USD	+1.7	-4.3	+10.9	-0.1	+7.6	+8.6
A USD	+1.6	-4.4	+10.5	-0.5	+7.1	+8.1
I GBP	+1.9	-4.5	+11.0	-	-	-
MSCI World Small Mid Cap	+4.0	+5.7	+17.1	+2.5	+8.4	+9.7
MSCI World	+3.2	+8.9	+25.1	+8.6	+12.1	+11.1

Performance in GBP terms

	1 month	YTD	1 year	Annualised		
				3 years	5 years	2012*
I USD	+1.6	-3.2	+8.4	+2.9	+8.2	+10.4
A USD	+1.6	-3.3	+8.1	+2.5	+7.7	+9.9
I GBP	+1.8	-3.4	+8.5	-	-	-
MSCI World Small Mid Cap	+4.0	+6.9	+14.5	+5.6	+9.0	+11.6
MSCI World	+3.2	+10.1	+22.4	+11.9	+12.7	+13.0

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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

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