



# Oldfield Partners: A Classic Contrarian Approach to Value

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## European Value Investing Conference

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Managing Partner

*October 2022*

[www.oldfieldpartners.com](http://www.oldfieldpartners.com)

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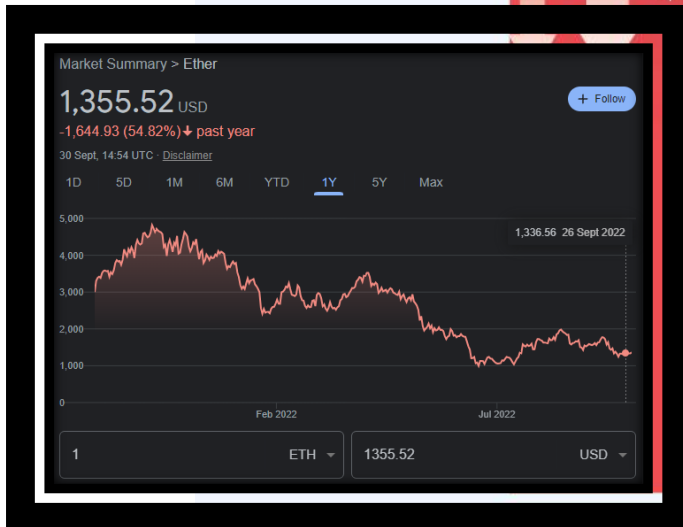
MARKETS AND PRICES

by **Jamie Redman**

Sep 22, 2022



## This Week's NFT Sales Slide, Bored Ape Market Cap Drops 21%, Floor Prices Sink Lower



Non-fungible token (NFT) sales this week dropped 10.88% lower than the week prior. Roughly \$118.02 million worth of NFTs were sold this week compared to last week's \$132.43 million. Further, the top two NFT collections with the largest market capitalizations shed significant value during the past seven days. While Bored Ape Yacht Club's market valuation lost 21.29%, Cryptopunks' market cap slid by 19.18%.

# Oldfield Partners – who are we?

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## Specialist Global Portfolio Manager

- Fundamental research-driven boutique

## Contrarian Value

- Patient, contrarian value investors

## High quality client base

- \$3bn largely from UK, Canada and the US for pension funds, charities and endowments

## Investment Portfolios

- Experienced team of 11 global generalists

## Stewardship

- Good stewardship is integral to our investment process. Publicly committed to Net Zero 2050

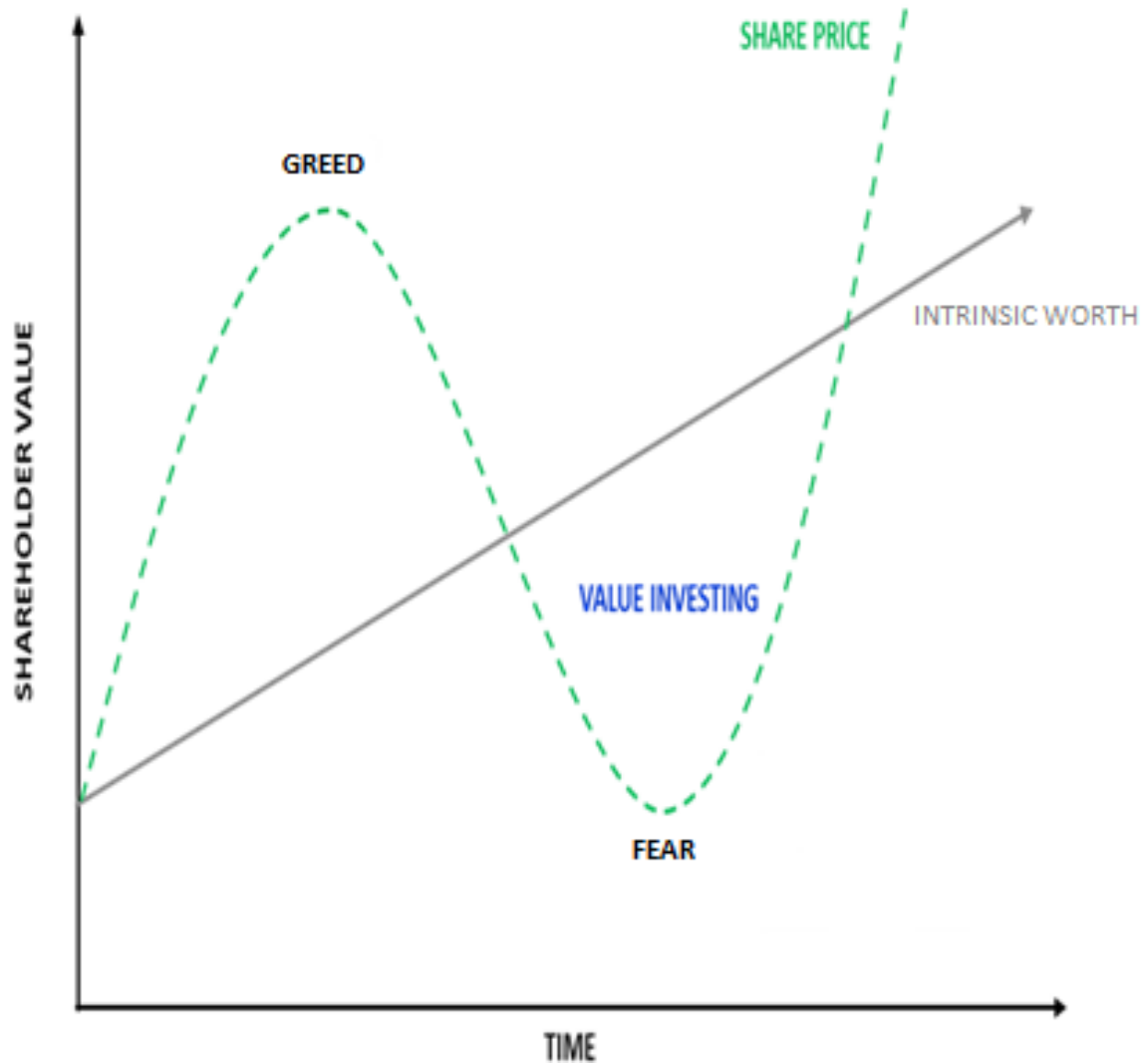
## Alignment of Interests

- Independent, owner-managed business



## Our investment philosophy – contrarian, patient, value investing

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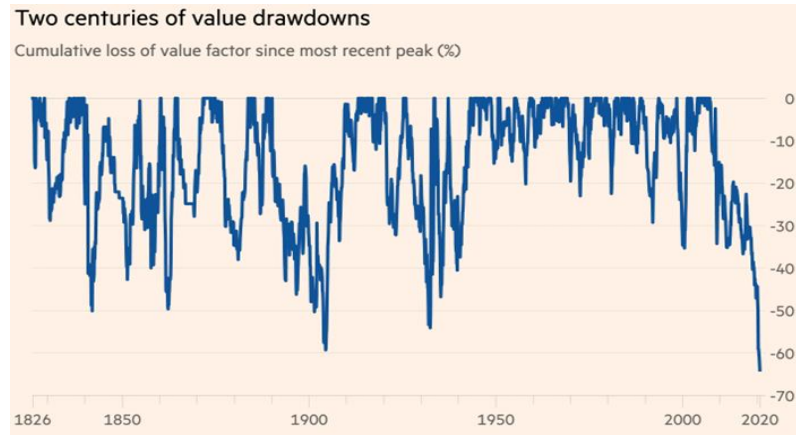
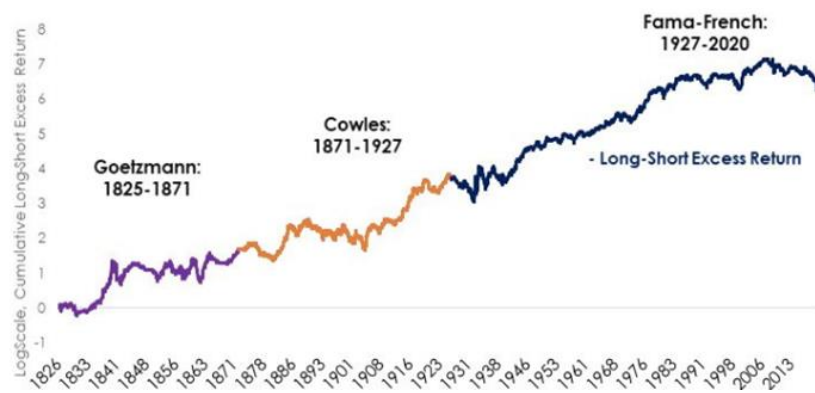


***“The intelligent investor is a realist who sells to optimists and buys from pessimists”***

- Benjamin Graham, *The Intelligent Investor*

# Value investing – works over the long-term

## Value versus Growth\*



The opportunity in 'Value' is as great as at any time in our history

\* - Top two graphs: Two Centuries Investments October 2020. Bottom graph: Bloomberg MSCI World Value/ MSCI World Growth to end June 2022.

# Investment process – idea generation

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Investment universe – focus on global equities with c.\$10 billion+ market cap

**Quantitative**

**Qualitative**

**Capital Flight / Sentiment**

## **Financial Model:**

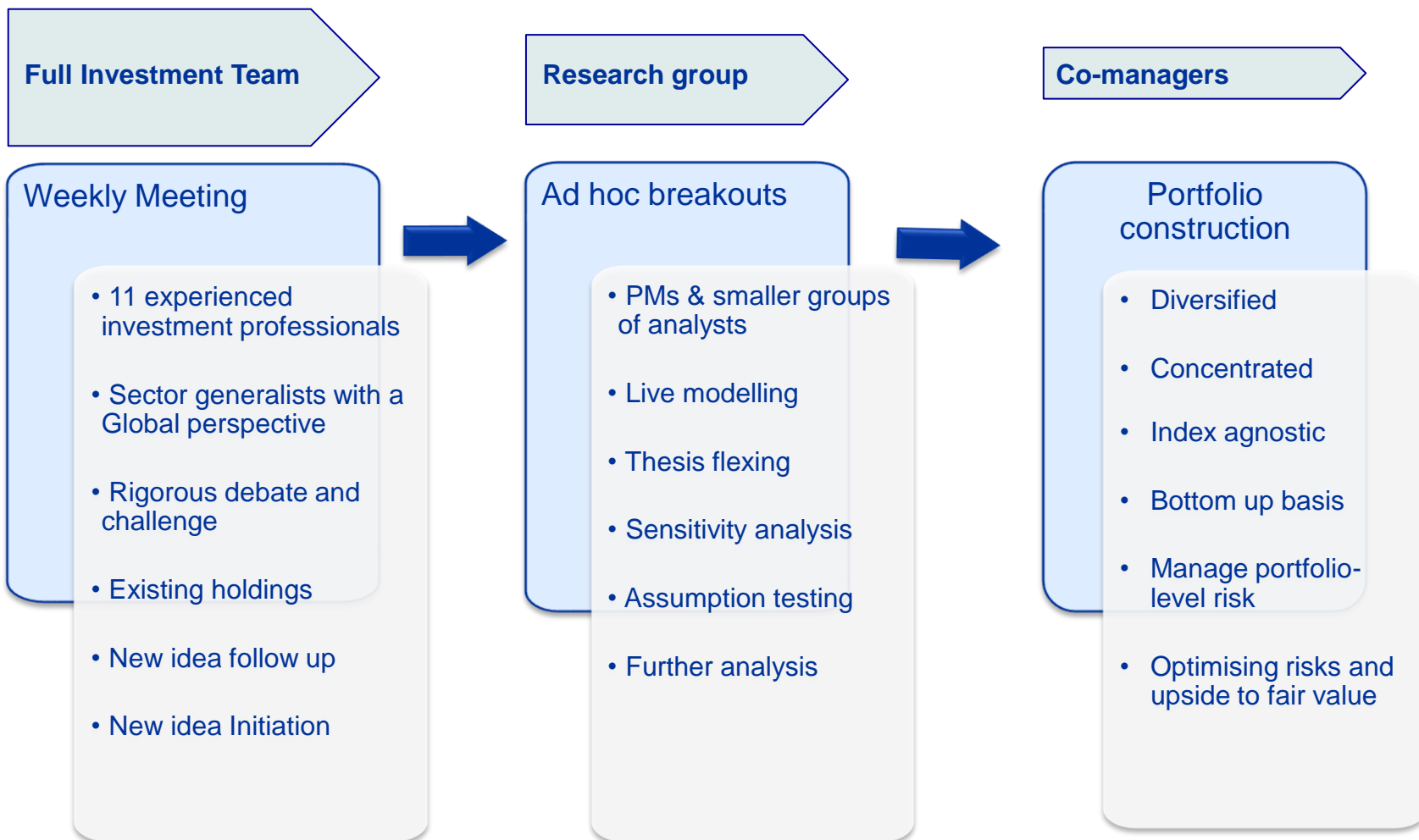
- Historical results – 10 years +
- Keep forecasting to a minimum 2 - 3 years out max
- Segmental analysis -> sum of the parts valuation
- Triangulation of valuation metrics
- Beware of visatee bias – expert networks useful

## **Investment Note:**

- Why the low valuation?
- What needs to change?
- What is possible on a two-three outlook?
- Fair multiple vs. history of valuation
- Key risks to thesis

**Estimate of intrinsic worth**

# Portfolio construction



Stable, experienced and collaborative team

# OP investment process - Siemens vs GE in 2018

## OP attracted to stocks under a cloud

- Disruption - can't rely on reversion - own work, forward view
- Price - fallen a long way - says nothing about value
- Cheap - headline metrics - importance of triangulation (EV)

## Wary of combining operational and financial leverage

- Balance sheet - key driver - value leakage
- GE - high net debt - high risk (factoring, poor CF, liabilities)
- Siemens - no industrial debt - hidden value (transformed, SOTP)

## Long-term - strategic transformation

- GE - 'fire sale' to deleverage = value leakage
- Siemens - growth - Digital factory and spin outs = value creation

	Annualised return*
Siemens	20.4%
GE	0.3%
MSCI Global Value	9.9%



**SIEMENS**

Fundamental analysis is key to separate true value from the statistically cheap



# easyJet – emerging relatively stronger from the COVID years

## OP attracted to stocks under a cloud

- COVID lockdowns
- Oil price and consumer recession
- Stock price at a 10 year low

## Store of Value

- Legacy carriers in crisis; debt, labour, capacity cuts
- Low cost model - competitive advantage
- Better balance sheet, lower costs, newer fleet
- Revenue recovery, pricing power and growth
- P/E c.6.9x\*, target 14.0x

## Milestones

- Rights issue
- COVID vaccines / Lifting of travel restrictions
- Revenue recovery and new holidays business
- New Airbus order delivery (\$6.5bn)<sup>2</sup>.
- Current market value £2.3bn, (2018 £5.2bn)

## EV to Invested Capital (2.5x 2015 to 0.5x 2022)



## Building recovery momentum

	Capacity vs FY'19	Load Factor
Jan-22	50%	68%
Feb-22	68%	81%
Mar-22	81%	81%
April-22	86%	86%
Q3	c. 90%	> 86%
Q4	c. 97% <sup>1</sup>	> 90%

Buying through the weakness this long-term industry winner – 3 bites

Source: OP research, easyJet investor presentation, Bloomberg.

1. Consensus 9/24, 2. At list price

## Value Traps – the occupational hazard of the value investor

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Margin of safety



- Primary research process
- Low starting multiples
- Operational and financial leverage

'3 bites'



- Price vs value
- -20% = full review = 2<sup>nd</sup> bite
- -40% = new analyst review = 3<sup>rd</sup> bite

Controls



- Limit to 3 bites
- Limit to 10% at cost
- Distance - price and time

Discipline



- Target valuation reached
- Thesis violation
- Reluctant sale

Without Value Traps the value investing proposition would not exist

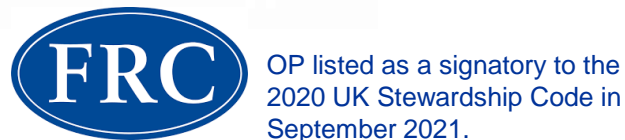
# Investment process - Environmental, Social & Corporate Governance (ESG)

## Integration into process

- Company analysis
- External expertise and data (MSCI, ISS)
- Vote on all proxies
- No negative screening
- Embedded Responsible Investment resource
- OP Stewardship Committee
- Engagement

## Engagement

- Individual and Collective
- Stock specific
  - Reactive, e.g. Barrick Gold, ENI, Rio Tinto, Tesco
  - Proactive, e.g. Nintendo, Kyocera, HP
- Thematic
  - Board structure and composition
  - Remuneration
  - Cyber security
  - Climate change



We have a responsibility to be good stewards of our clients' capital

## OP: diversified and idiosyncratic

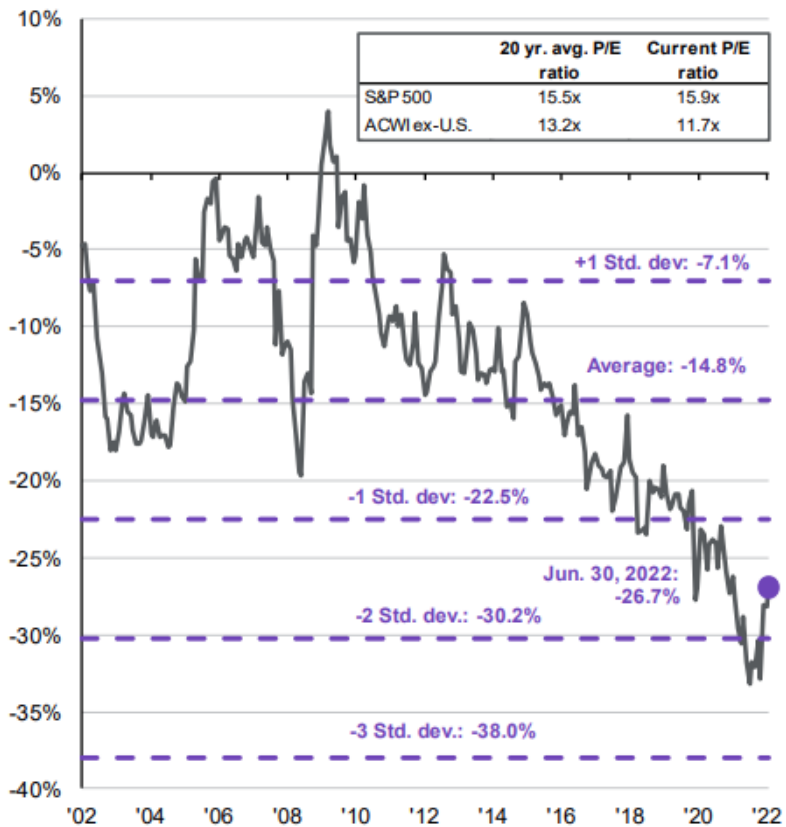
Index	MSCI World	MSCI World Value	OP Global Equity Strategy
<b>Top 10</b>	Apple Microsoft Amazon Alphabet Tesla Unitedhealth Group Johnson & Johnson NVIDIA Meta Platforms Exxon Mobil	Unitedhealth Group Johnson & Johnson Exxon Mobil Berkshire Hathaway Procter & Gamble JPMorgan Chase Pfizer Chevron Corp AbbVie Coca Cola	BT Berkshire Hathaway Bayer Nov Inc Lloyds Siemens Alibaba Mitsubishi UFJ LG H&H Sanofi
<b>Largest Country</b>	<b>US: 68.7%</b>	<b>US: 69.4%</b>	<b>US: 24.3%</b>
<b>Largest Sector</b>	<b>Information Technology: 21.1%</b>	<b>Financials: 21.1%</b>	<b>Financials: 24.9%</b>
<b>Div Yld (%)</b>	2.2	3.3	2.8
<b>P/E</b>	17.0	12.9	10.3
<b>P/E Fwd</b>	14.5	11.3	9.3
<b>P/BV</b>	2.7	1.8	1.0

Source: OP, Bloomberg, MSCI.  
Date: as at 30<sup>th</sup> June 2022.

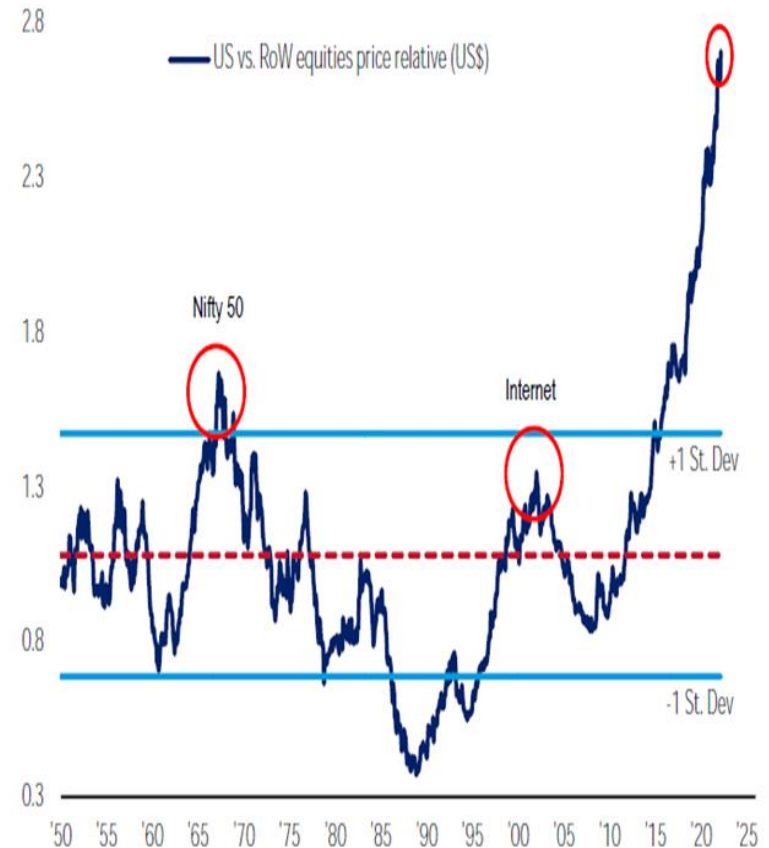
# Value is found outside of the US

## P/E discounts

(MSCI AC World ex-US vs S&P 500, next 12 mths)



## US vs ROW price relative



The US was at an extreme

Source: FactSet, MSCI, S&P, JPM Asset Mgt as at June 30<sup>th</sup> 2022.

Source: BofA, Mar

# The US valuation – reset underway

## Shiller PE Ratio for the S&P 500

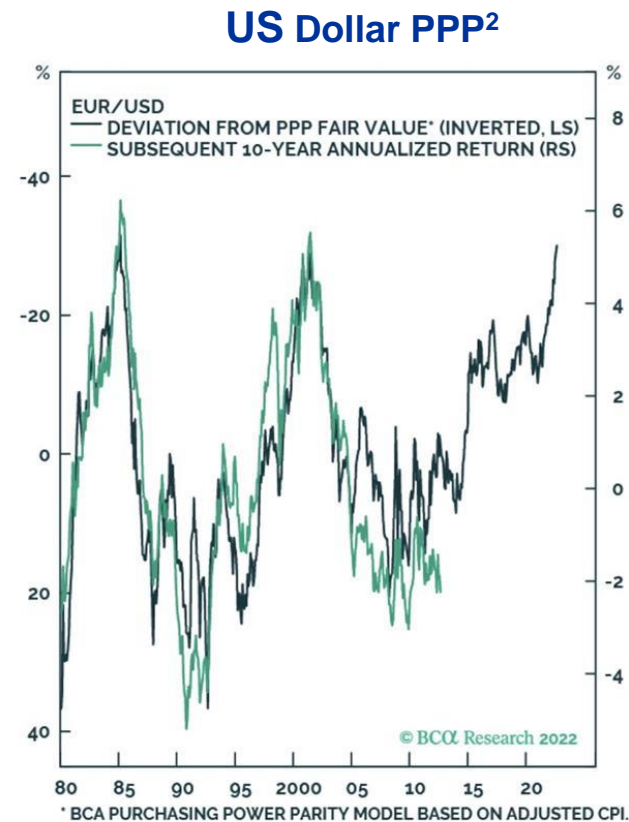


The US market has rarely been valued higher with increasing EPS headwinds

Source: Robert Shiller, Yale University.

Date: As at 6<sup>th</sup> July 2022.

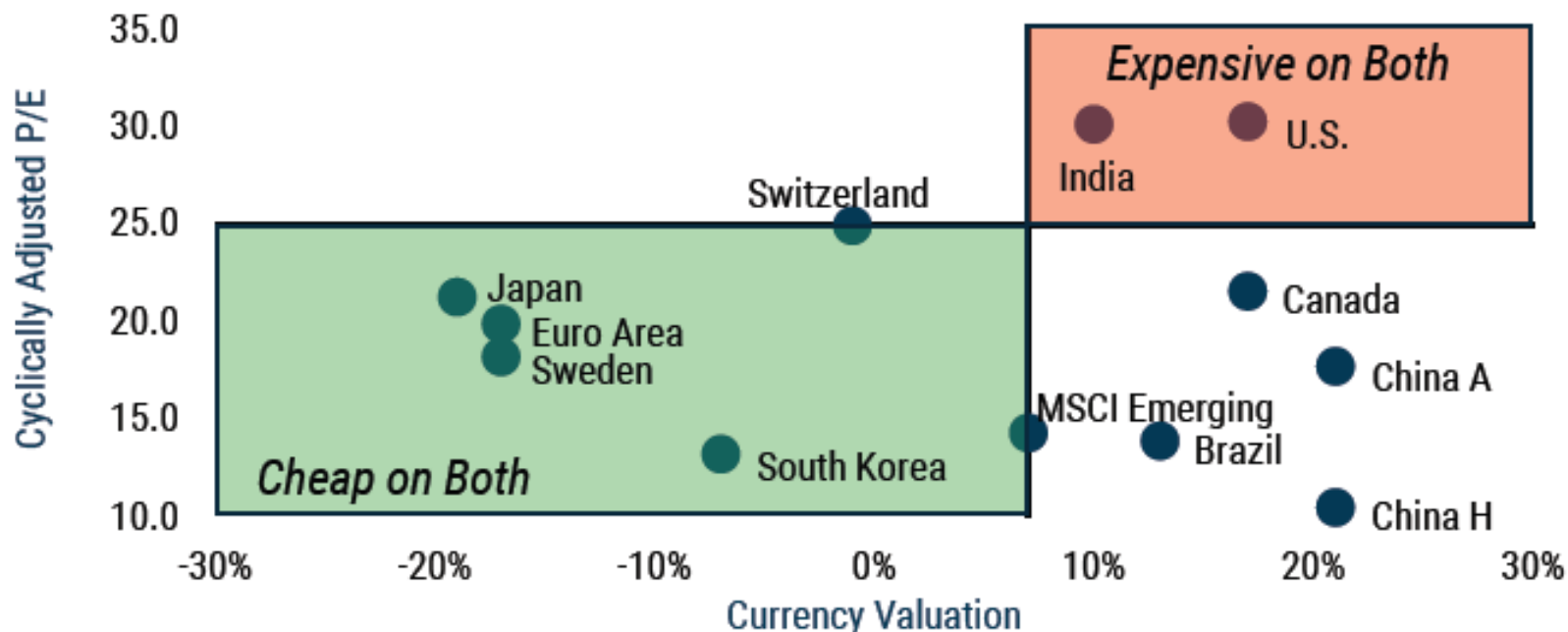
# The US valuation – the currency too is overvalued



US dollar only been more richly valued twice in last 50 years

# The US valuation – the currency too is overvalued

## Equity and Currency Valuation



Buying undervalued equity markets with undervalued currencies – Two Ways to Win



# Global Equity Strategy – weighted average upside

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Source: OP.  
Date: As at 30<sup>th</sup> August 2022.  
Representative global portfolio used.

# What sets OP apart? – Global Equity Strategy

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Philosophical commitment to patient, contrarian Value investing



Portfolio composed of companies trading at significant discount to intrinsic worth

Experienced, cohesive team with a Global perspective



Global idea generation reinforced by specialist emerging markets skill set

Unconstrained, Conviction-based, capacity-constrained strategy



Global Equity strategy holds 20-25 of OP's "Best Ideas"

Investment discipline conquers emotion



Proven methodology to filter the bargains from the statistically cheap and reduce exposure to Value traps

Good stewards of your capital



ESG issues including a commitment to achieving Net Zero emissions built into our investment process

Unconstrained, patient, contrarian value

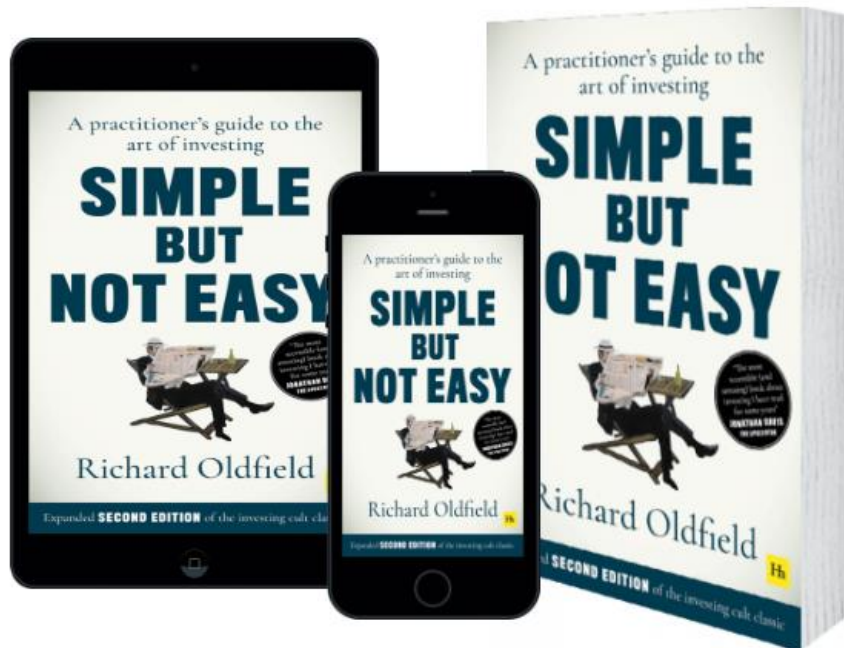
Simple but Not Easy, 2<sup>nd</sup> Edition – available from all good book sellers!

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Source: OP.

# Risk warning and other important information

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