OP

Oldfield Partners

Global Equities Investor Day

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Oldfield Partners (OP): *Nigel Waller = NW, Andrew Goodwin = AG, Richard Oldfield = RO, Sam Ziff = SZ and Tom Taylor = TT*

NW: Welcome. Thank you very much for coming to the Oldfield Partners Global Equity presentation. For those who don't know me, I'm Nigel Waller, I'm CIO and co-manager of the Global Equity Fund with Andrew Goodwin. My background is I'm one of the founding partners of Oldfield Partners, one of the original four and I started working in the City in 1991 at Mercury Asset Management and started working with Richard in Mercury Asset Management in 1994.

AG: I'm Andrew Goodwin. I co-manage the global strategy along with Nigel. I joined OP in 2013 and I started my career at Philips and Drew and so I've been a value investor for over 20 years now.

NW: The format for this afternoon is we'll speak for about half an hour and then we'll open the floor to questions. At 5 o'clock we'll stop and have a cup of tea. Those that need to go can go. Those that want to stay on and ask more questions can do so and we'll stay until we've answered all your questions. Then the final thing is, as the slide says it's global equities we are covering but as you know we do more than just global equities and if you've got questions in that final piece do ask, but we've got a separate event on 19th June, just dedicated to those other funds we manage. Performance. The chart you have in front (page 2) of you shows the performance of the Overstone Global Equity Fund and MSCI World. It's in sterling on the left and US dollars on the right. 2016 was a very strong year for the portfolio and in fact the best in absolute terms since 2010 and the best for the OP approach on a relative basis since 2000, so a very significant year.

The third line down is since 11th February last year. Those that know us well will remember that we've talked about 11th February as a key point and I'll just reiterate it. For those that don't, 11th February was a date we thought a major turn in terms of market sentiment. for three reasons. When we were writing the February newsletter, the first was that we had 70% upside in the portfolio on an aggregate basis to fair value. That had never been seen before. We started tracking portfolio upside back at the end of 2008 and previously it had reached 63%, so that caught our attention. The second reason was that although we're not big users of technical indicators we have used the Investors Intelligence Survey of Advisory Sentiment as a great contra-indicator and that was at an all time bearish level, so that was very interesting to us. Finally, we noted that five or six of us had, without conferring with one another, added to our holdings in the funds on or around 11th February. That's what suggested to us that this clearly was a turn in the market. We've talked about it since then and as you can see, the turn has been certainly quite encouraging.

One of the issues that we've had, obviously the performance in 2016 was fantastic but we had previous to that some years of underperformance, really we've been wading through a headwind which has been value underperforming growth and that's very unusual. I'm going to spend a few slides just talking about that phenomenon and why we think it has turned.

This slide (page 3), many of you will have seen this slide before, shows the performance of the MSCI World Value relative to MSCI World Growth. Now this goes back to 31st December 1979 and actually you can take almost any long term period for this relationship and you get the same pattern, which is bottom left to top right, value outperforms growth. What you can also see is clearly it doesn't happen every single day. There are clearly times when this doesn't work and in fact two stark periods in the last 20 years on this chart, the first was a short sharp effective growth out performing value around the TMT bubble in 2000 here and then you've seen this extended period of growth outperforming value more recently. Now that is a period of almost nine years from beginning to what we think as probably the end, which is unprecedented. That is something that we want to explore more but there has been a turn and we think that is really just the beginning, given the extent of the underperformance of value versus growth.

AG: This chart (page 4) is actually the same data that Nigel was using, but represents the 10 year rolling returns for value versus growth. We thought this was illustrative really of just how deep the underperformance of value has been and as you can see it's as big as it was in the dotcom era, but clearly as Nigel was stating, it's been much more prolonged, certainly over the last eight years and on Nigel's chart you can see just how much in effect value has come back, but this chart shows just how much further it potentially has to go just to get back up to more normal levels. What we feel is certainly that it has turned and it gives us a tailwind for our style of investing that should persist now for a number of years going forward from here.

The next slide here, we've borrowed from Franklin Templeton (page 5). What this shows is the performance of the value and the growth indices after the first interest rate hike in the US. We've six periods when that's occurred since 1975 and this is the average for that data set. What should be reassuring to all equity investors is returns are positive for both styles of investment, post the first rate hike in the US. Green here is growth and you can see three years on from that first rate hike, it's returned over 30% to investors, but the blue line, our style of investing, value investing, you can see that generates a return of around 50%, so clearly out performing growth as interest rates start to move up. That seems perfectly rational to us because as interest rates start to increase, so does the discount rate you apply to cashflows, cashflows that for growth could be out far into the future, the values of those start to fall and so value investing comes into its own.

Now we're 15 months on from the first rate hike in the US and the data does seem to be tracking this quite nicely.

NW: I should say it's actually 16% and 9%, for value and growth respectively at this stage, so slightly above the aggregate ranges but the relationship remains the same.

AG: This slide (page 6) highlights the stock drivers of the strategy and we've put two periods here. We've got the calendar year 2016, you can see the individual top five and bottom five contributors to fund performance and we've also got this period here, which is since we last had this meeting in October last year. We will talk about some of the themes in the portfolio that have driven this performance and then go into some of the stocks in more detail later. But it's just worth highlighting in terms of themes and how we do it. We are global stock pickers, go anywhere stock pickers. We do not start with a top down view of the world and decide where we're going to put our money. We find individual stocks that we like and themes emerge from what we like. That's a very important thing. So what you'll see and what you have seen over time is that the themes in the portfolio will change.

NW: Now as is evident if you look across all the names on the portfolio on this chart, you can see that there are three major themes which we want to highlight in the portfolio at this moment in time. Japan is the longest running theme that we've had in the portfolio and that still exists. You can see that it is well represented amongst the detractors last year, in fact they were among the top five contributors in the year before. They had a tough time last year with the change in monetary policy adopted in Japan but the other aspects are a more cyclical theme to the portfolio. That is the second time we've had that. We had that again in March 2009, that sort of period, same sort of cyclical themes in the portfolio of commodities, of energy and of industrial cyclicals. The last one which you can particularly see in the post-Trump box at the bottom here is the financials exposure which increased during last year as we found more opportunities in that sector. But the themes will change over time depending on what the market offers us in terms of value opportunities. Richard?

RO: As Nigel says, we will go anywhere. One of the places we will go that some people will not go to is commodities stocks. Many investors say you can't predict commodity prices, it's too difficult to predict prices, better to stay away. We don't say that, we will invest in commodities. The saving grace of commodities is that they're not going to go out of fashion: iron ore will be needed. We don't know in what quantity it will be needed but it will be needed. So provided two things are true, then we are interested. The two things are first we want to invest in very high quality assets. Second they have to be undervalued, which Rio has been deeply and we still think it is pretty undervalued now.

In terms of quality, you can't do better than Rio (page 7). In management, we think that the focus of the management is very firmly on providing returns to shareholders. In terms of balance sheet, the balance sheet was in a very poor state before we invested in early 2009 and was rectified ,you may remember, by a giant rights issue in February or March of 2009, which made it possible then for us to invest. The balance sheet is now the tops, the best of the sector.

Then there is the quality of the assets and that's what this chart on the right shows. The cost of production of iron ore for Rio Tinto is the lowest in the world and the consequence is on the left - over an extraordinarily volatile period in terms of iron ore prices, profit margins have generally been between 40 and 60%, sometimes higher than that and rarely lower.

So the quality in Rio Tinto allows you to wait because that is the pre-condition for being prepared to invest in commodity stocks. We can't forecast when the turn will come when commodities are falling, but we can estimate a kind of normal and then we have to assume that the normal will be reached at some point in the foreseeable future and not in the very distant future. Provided that's so, we can wait if we've got a balance sheet that allows us to do so and if we've got a quality of assets that allows us to do so, which is the case with Rio Tinto.

Rio Tinto was, as you saw, the second best contributor to the portfolio in 2016. We still have a target which is nearly 25% above the current share price and that is using what we regard as normal commodity prices. We use for example \$55 for iron ore based on the cost curve: we use the price which is on the 90th percentile in the cost curve and then we take off a bit to be safe. We assume that production which is more expensive than that would have to drop out if the iron ore price was below that pivotal level, That brings us, with various assumptions for copper and aluminium and other metals, to a target price of £43. If we were to use current commodity prices, then the target price would be about £70. So there's a lot of upside.

Just to give one illustration of something that we always claim about these very broadly based commodity companies, they ooze with assets.   One of the assets which we have noticed in the past with Rio is an aluminium operation in Scotland and to go with it about 60,000 acres of land and very good stalking, so that's all very nice. But it's difficult to understand why Rio Tinto should want to maintain this estate in Scotland and they have finally, years after we thought they should have, finally sold it. The price which they got for it, \$410 million, completely validates our pricing, our valuation of the aluminium operations of Rio across the board.

NW: So Tesco is the next one. Tesco we've put up here because it's the worst performer since we last saw you, but I should say that it was also a very helpful contributor to the portfolio last year after many years of not being very helpful. It produced a return of 38% last year, 16% in US dollar terms. It was very helpful to the portfolio, but had a tough time since October and that's why we thought we'd update you. As you can see from this chart (page 8), which is the latest iteration of it, you can see over here on the right hand side of the chart that in fact we still see close to 50% upside in Tesco from today's price and of course the key to that is the UK valuation on the left hand side. The reason that we've stuck with it through – I was going to say thick and thin but it's mostly thin – is our difference in opinion with the consensus on the likely sustainable operating margin in the UK and what you saw through the rather horrendous cycle that we've been on with Tesco is that their operating margin went down briefly to zero and what consensus seems to have done is said that somewhere between 1 and 2% is the new norm. It's different this time. Our view is that that's not right. We had a look at food retailers around the world and looked at their returns on invested capital and decided that having reversed out typical asset turns for the business that a food retailer with decent scale in its market should be able to achieve somewhere between 3 and 4%. So we've been using 3.5% as our fair, sustainable operating margin for the UK business for some time but we struck rather a lonely figure doing that for quite a period, until the fourth quarter of last year when the management team for the first time provided a guidance or objective to reach between 3.5 and 4% operating margin. We felt relieved that we weren't barking up the completely wrong tree. That's key to the valuation of this business long term.

In terms of operating fundamentals, we've had eight quarters of like-for-like volume growth. In fact for the first time since 2011 we had market share growth in the last quarter that they released which was the third fiscal quarter to the end of November. So the fundamentals are improving and the other great indicator of that is that Tesco has taken down price and particularly targeted the hard discounters and you have seen a collapse in the like-for-like sales of the hard discounters, Aldi and Lidl, briefly to negative, now just positive. So violent was that shift that the CEO of the UK business of Lidl was fired, so they didn't like what they saw there. Clearly Tesco has made an impact in repricing its offer.

With nearly 50% upside we're still very keen on Tesco.

AG: Samsung (page 9) has also been a strong driver of the fund over both periods, through the whole calendar year of 2016 and also from the October period and it was actually up 43% in 2016. It may come as a surprise to some that it's actually in amongst our top performers for the year, given it was in the headlines for all the wrong reasons in 2016 with the product recall of the Note 7. But one of the things we'd stress here as value investors is that often, when you're buying an investment, the discount to fair value is described as a margin of safety and we think Samsung is a good example of how that margin of safety counts and is extremely important in driving long term returns and also in protecting capital. When we bought Samsung, it was trading on a single digit PE with a large net cash position on its balance sheet.

Now the fundamentals for Samsung continue to go from strength to strength. We think the swift and decisive action recalling the Note 7 means that the brand itself suffers little to no permanent damage and the company is putting this scandal behind it now, as we've got the S8, its next generation product, the launch of which is in the next month or so. So it's increasingly moving on from that.

But the real driver for Samsung has been its semiconductor business. It remains the leader amongst its peer group, in terms of technology it's way ahead and also in operating margins and the level of profitability of this business. It was the semi-conductor business that drove double digit operating profit growth for the group as a whole in 2016.

So we think the story at Samsung continues to get better and one of the things that's very interesting more recently is corporate governance reform, that we're starting to see signs of at long last at Samsung. It's now committed to returning 30 to 50% of its free cash flow to shareholders via share buy backs and dividends and this year it's going to look to buy back 3.5% of its market value in shares. Given the strong growth we've seen in the fundamentals, Samsung remains on a single digit PE. This is still a very attractive valuation. The net cash on its balance sheet is around a third of today's market value. In our valuation, you can see we've shaded it here, we only use half of that net cash to give us our target price. We continue to see significant upside here and we do think Samsung is a good example of a strong story getting better.

NW: So this chart (page 10) shows you what we've been doing with the portfolio since we last saw you in October. We sold BP and Komatsu because they hit our target prices. Just to reiterate, when we find something that we like, before we buy it we set a fair value for it, which is based on a target multiple and a variable to that in getting a fair price. So in the case of BP and Komatsu they hit that fair price and we sold it. BBVA we sold as a result of the surprise election victory in the US and we have bought Lloyds and Viacom, which we'll talk about now.

AG: I should just say on BBVA that that was the one casualty in our portfolio of the Trump election victory. We very much liked the Spanish operations of BBVA but 50% of its net income and therefore capital generation going forward came from Mexico and the risks around the Mexican economy and the risks of that actually going into recession meant that we felt the risks were far better in Lloyds and so we switched the holding into Lloyds.

NW: Speaking of Lloyds, we bought Lloyds in the fourth quarter of last year. We began looking at the UK banks in the summer of last year and stepped that up after Brexit. We looked in particular at RBS and Lloyds. RBS did look cheaper but there was more risk around the legacy costs and so given that we were being offered Lloyds at a discount of 0.9 of book value, offering at least 40% upside to fair value, that was too good an opportunity to miss without those risks that you see at RBS, so we bought it. For those that don't know, it's the number one bank in the UK. Average 19% market share across its product lines (page 11), which is pretty impressive. Just poking through that with the MBNA acquisition in credit cards, which we thought was a good acquisition, of which they used 80 basis points of their capital. Despite that they had still had a core equity tier 1 ratio of 13%. So it is exactly where the regulator would like to see it. So well done Lloyds. But this again is another gift that keeps on giving in the sense that we think it'll produce between 150 and 250 basis points of capital every year. There just aren't the opportunities to spend that in the UK, so we think it comes back to us. We've mapped out here in fact (page 11), this is the consensus expectation of dividends, but in fact we think the dividends could be some way higher. We think we could see a yield as high as 7% from Lloyds while we wait for the value to be realised. So very happy with our acquisition of Lloyds.

AG: Viacom is the most recent purchase for the global strategy. A US media company, a leader in terms of film and TV content production. It owns some of these iconic brands (page 12), the iconic film studio Paramount and it also owns this raft of TV channels; Nickelodeon, MTV, VH1, which it terms its Media Networks business. The shares for Viacom have been very weak over the last three years. In a rising market they are off 50% in absolute terms. One of the reasons for this is that there has been a very public spat at the boardroom level. There's been a battle for control of the company between the former CEO, Dauman, and the daughter of the founder and ultimate owner, Sumner Redstone of Viacom. This has led to a malaise and a very public fall out which has clearly weighed on the share price, all at a time when the market's starting to question the health of the pay TV ecosystem in the US, given the rise of internet distribution forms like Netflix and Amazon etc. But for us, one of the key symptoms of the malaise comes in the Paramount movie studio itself. Last year it lost $0.5 billion and it had only one hit movie. Usually in a typical year there's five or six. It had only one hit from the Star Trek franchise and we think that shows just what's been going in this company.

So you've got a business here, if we look at the Paramount movie studio, we feel that 2016 really is the nadir for profitability for the group as a whole and you can see that just from the improving release schedule of the movies. There won't be just one hit going forward. Further improvements will be made. It enters 2017 with a completely new management team. Bob Bakish is the new CEO of the business has led the international operations very successfully for Viacom and so we're very encouraged that he has now taken the reins and has replaced a whole raft of senior management at the business.

The media networks business remains a very attractive business. It makes operating margins of around 33%, is highly free cash flow generative and we think an excellent business.

The rating of the business has fallen. Peer groups trade at around 15 times earnings. The rating for Viacom fell to around 10 times, a PE of 10 times and on earnings that included the large losses at Paramount. We feel Paramount is a real hidden gem in this business. There was talk of it being sold last year and reported valuations were upwards of $8 billion. If you look, that's roughly half the current market value. We conservatively use $3.5 billion because we're looking at a normalised profit level, but clearly this is a trophy asset, an iconic film studio that can command very high valuations. So we see significant upside here in the valuation and we're optimistic about the impact a strategic reboot of this company can generate and so we see significant upside to our target valuation at Viacom.

NW: This is the chart you've seen before (page 13), the portfolio characteristics, on the left hand side the valuation. As you can see, in the dark blue bar which is the portfolio, 12 times earnings, 5 times cash flow and 1.2 times book. So this is very much a value portfolio. You can see it is half the valuation of the light grey bar, which is the MSCI World and also a big discount to the light blue bar which is the MSCI World Value. So the valuation is low.

AG: Just to pick up, the valuation on the portfolio of roughly half that of the market and in terms of quality and the fundamental side (the chart on the right of page 13), we give up very little in terms of the return on equity at 9% for our portfolio versus 10% for the benchmark. That's particularly stark when you look at the lower level of leverage we have in the portfolio at 34%. We as value investors are wary of combining lots of operational leverage and lots of financial leverage. So having that lower level of leverage at a portfolio level is a risk control that we follow.

This slide (page 14) shows the country and sector weightings for the portfolio overall. Again, just to reiterate that we are bottom up stock pickers and that this really falls out of that stock selection process. There isn't a huge change from when we last reported in October. You can see as Nigel has mentioned we still have about one third of the portfolio exposed to Japan and that's because we continue to find individual stock opportunities there on a value basis. We still have a low level of exposure to the US. We continue to struggle to find good, really good value opportunities there. The benchmark weight is at over 60%, we're lower than that at 24%, but the investment in Viacom shows that there's always something to do as a value investor and we continue to scour the market for those value opportunities.

NW: On the sector side on the right hand side of this chart, again little change, the cyclical area, particularly autos, remains a theme in the portfolio. We have still exposure to energy, despite the sale of BP, through Lukoil and ENI. Then old fashioned technology companies, undervalued technology companies like HP, are still a big theme in the portfolio.

Areas that are not a big theme in the portfolio and we can't see being for some time, consumer staples, we're still very wary of the valuation which looks historically high to us, particularly on an enterprise value basis, and also healthcare that still looks too expensive to us. So we avoid that too.

This is the entire portfolio on one slide (page 15) as it stood at the end of February and before we take questions, I'll just make three points. The first is we think that value has turned. We do think it's now a gentle tailwind rather than a headwind, as it has been for the best part of a decade.

The second thing is that despite the strong performance of the portfolio last year, we still have more than 30% upside in the portfolio and that is above our long term average – again we think that's attractive.

Finally, nothing has changed. The approach remains the same. As Andrew said, we're still scouring the world for individual stock ideas that are unloved, undervalued and that we can still take our typically dispassionate view of and be patient waiting for that value to be realised. With that, we will take your questions.

Q: Where do you find the opportunities in financials geographically? Are they mostly in the US and Japan?

AG: As you can see, actually it's a Japanese bank that's our largest exposure there and we point to MUFG, one of the things that's been paramount for us is having a really strong balance sheet. We think that we get that in the Japanese financials, to the extent the MUFG is one of the few banks in the world that continues to buy back its own equity. They have a surplus of deposits, 70% loan to deposit ratio. So we have a really strong balance sheet there.

The other thing is the valuation of MUFG, particularly when we were talking about the lows in February 2016, MUFG was trading at 0.4x price to book and that compared to the Europeans, more like 0.7x price to book. So we think we get a combination of a really strong balance sheet, a really great valuation and actually the prospects going forward for Japan, particularly now that the environment has started to shift, are really great. The other thing to mention with MUFG is that it owns 23% of Morgan Stanley, that now trades on 1.2x price to book and accounts for over 20% of MUFG's market value and so Japan is still very much a centre of opportunity for us.

Q: What happens if there's a global trade war?

NW: That's a big if. Clearly different parts of the American government have proposed different tax regimes and so we have thought about both briefly, but we recognise that the final solution is going to look very different to probably both of them. We're not quite sure what it will be, but we have been through the portfolio and thought about what speaker Ryan's proposals would mean. It's less clear what Mr Trump's proposals will mean because he hasn't been very specific. It's very difficult to come up with an answer there and we haven't specifically made any assumptions.

Q: If there was a bit of a global trade war, in other words more higher tariff barriers, would value investing still work or would that be one of those things that would clobber it?

NW: I don't see why value investing should stop working just because of a trade war. We'd have to be wary about the stocks that we invest in and we are already thinking about which stocks would suffer more from the sorts of trade war instigated by the tax. After all it will be instigated by any tax regime put in place by the US government.

AG: **It is v**ery much stock specific, we're going through each investment assessing that risk and hence really that was the reason behind the sale of

BBVA, because it does appear that Mexico is front and centre, particularly in terms of trade tariffs, and if you look at the Mexican economy and how much it relies on inward investment from the US, so just even the rhetoric means that , as we have already seen, inward investment has slowed. Around 14% of Mexican consumption is driven by remittances from the US, and again even the talk of this is starting to have a real impact on the economy. Hence, we sold BBVA because we felt that 50% of its net income which is derived from Mexico was now at risk going forward. So we are taking it into account on a stock by stock basis.

Q: On the Viacom networks business, it seems to me it's almost the flip side of the way that Facebook and Google are being valued by the market. So extrapolating a certain shift from traditional advertising by broadcast media to digital, what do you think people are getting wrong?

AG: Really it's the durability of the cash flow that comes from the media networks business. Typically it runs under contracts of five to seven years. For the next 12 months certainly there are no contract renegotiations and so it's got an inbuilt price increase, and so we're looking at around 2 to 3% growth this year. Also it is what Viacom itself is doing, we think there has been a paralysis at the company with this boardroom fallout. They are now doing a lot which we are going to hear more of throughout this year in terms of adding value to their content and audience data. One of the issues they face is that the audience data from linear TV isn't as rich as online but now they're getting payment information, they're getting location information, which means that it starts to compete on a more equal basis to online and actually those cash flows then will be more durable. The other element that we think the market is underestimating is the international element which has been driven by Bob Bakish historically, so the growth there, they continue to see decent growth, so even if the US, they talk about this 'cable cutting', that it might see pay-TV subscribers decline by 2 or 3% per annum it remains a durable cash flow business, which we think the market's undervaluing. You're quite right, very often we tend to be on the other side of those trends, so GM is another good example where the market's off chasing Tesla, and actually we find the value in something like a GM and take advantage of those trends as a value investor.

Q: An oddball question, but two things that are no longer on the list are BP and Staples, just wondering if you have any observations on those stocks.

NW: I'll start with Staples. Staples, one of those examples where some people say when an investment goes wrong, it becomes a long term investment and you hold until it comes right, but in the case of Staples we realised that the proposition we faced after the FDC stopped the proposed merger, we realised that the plan B being offered by management just wasn't acceptable. It wasn't going to provide a defence against the ultimate decline caused by the likes of Amazon. So we sold it, which we did at the beginning of last year. That's why Staples is no longer in the portfolio.

AG: On BP, it's that it hit our price target, in particular post Brexit as a US dollar earner, the share price appreciated sharply and hit our price target and that's a discipline, everything we do has a price target so when we get there, when we review and can see no further upside, we sell.

Q: With big exposures in places like Japan, you've got Lukoil etc, can you talk about shareholder rights? You obviously feel that shareholders are going to be looked after in these places. I do share those views but I'm interested in your view.

NW: Japan, it's one of our…. I think we're probably getting a name for being rather boring when it comes to our company visits. It's one of the things that we engage upon. We're very focused on board structures, very focused on independent directors and their roles that these companies so it's very important to us that the stocks that we're investing in, the stocks that we go to see, are taking on board that pressure, that it's constantly there and it's driving that domestically. So that's very important to us.

In the case of Lukoil, the reason that we felt we were able to invest, clearly there is always a risk in Russia, but the reason we're able to invest is because the board is actually very international. We had ex-board members from ENI, from Conoco, from Pictet, so we felt that there was an international rigour which would help in terms of profile and protect investors. We have certainly factored in the potential for disastrous loss in the valuation of Lukoil.

AG: To add to that, clearly there's lots of very cheap companies in Russia, Gazprom being one. Why we've alighted on Lukoil is with the management ownership at round 34% we feel that actually our interests are aligned with the management there and what's very pleasing in Lukoil over recent years is their commitment to the dividend. So they're committed to growing the dividend at 15% in rouble terms and currently we're getting around a 7% yield from that, so there we do feel we are aligned with management and that we are being looked after.

Q: Interesting in hearing your views on E.ON and it looks like it's turned, but it wasn't a particularly good announcement. What are your thoughts?

SZ: E.ON has had a tough 12 to 18 months. They keep on announcing that they're going to do an equity raise. There's a couple of things left outstanding. A nuclear fuel tax is the key thing that we're waiting on and once there's some news on the quantity of that, then we'll know the equity raise. In terms of our view of valuation, we've been assuming that there is an equity raise to fill the amount that they need to fund the nuclear liabilities, but we still see substantial upside. The regulated assets that they own are very valuable and we don't see them disappearing any time soon. We're hoping they're through the worst and that from here it's onwards and upwards.

AG: But we're most conservative in that assumption about the capital raise, we've assumed all equity and we're not actually convinced that they will do all equity, probably a hybrid so it won't be as bad as we currently forecast.

Q: Just going back to the governance and shareholder issues, what are your thoughts on the Samsung arrest for corruption and going forward how things will be managed?

TT: It's a fairly common occurrence in Korea. They usually spend a short while in prison, from which they can run the company. Samsung has the benefit of having three CEOs, one for each of its main divisions who will continue to manage the day to day, and the longer term decisions will still be made by the family. Korea has particularly strict laws in regard to what he is being accused of. In other countries it may be just seen as lobbying; but he has broken the law in Korea, allegedly, which is disappointing. We don't see that having a longer term impact on the company.

Q: Relatively light in Europe. Are you finding many companies there that might challenge, replace, or are coming in? It seems like Europe is quite cheap, rather like Japan. It makes the same margin. When you're looking, are you seeing opportunities?

NW As Andrew said, there's always something to do. We've been talking about Vivendi recently, as an example of something that may come in. There are always things on the horizon, but relatively few compared to Japan where we've got more interesting opportunities.

Q: Would you like to say something about HP and Hewlett Packard?

NW: Of course. As you probably realise, they were one company and they split into two in October 2015. We always felt that we valued them as one, felt roughly a 10% free cashflow yield would be reasonable unless they could prove that they could return to growth. So that's been our baseline and when the businesses split in two, we valued both similarly. What we've seen since is that HP Inc in fact has almost reached our fair valuation after a very strong set of results two or three weeks ago. HPE is slightly further away, although it has surprised us with the value that it's been able to create by spinning off its enterprise services business and merging it with CSC. That transaction completes on 1st April and so we will receive 50% share in the combined business as shareholders of HPE. They've also managed to spin off the software business to Microfocus here in the UK and again, HPE shareholders will get a 50% share of that combined. I think that closes on 1st September and that's made a lot of value, because those valuations were the big premium to the 10% free cash flow yield that we've assumed. We still see about 20, 25% upside in HPE at this point, but much less in HP Inc. now.

Q: How enthusiastic are you for the opportunities for a value investor relative to a growth investor, relative to where you have for the last few years? Have you ever been as enthusiastic as this?

NW: We're very enthusiastic about the opportunity. Yes, in February last year and March 2009 we were more enthusiastic than we are today, but other than that, no. It's been a very long slog as a value investor with that unusual headwind. We didn't alight on interest rates as the turn and then tilt the portfolio in any way. We are value investors, we do what we do, but it was interesting to come across that chart because it does help to explain why the turn might be taking place now and so yes, very enthusiastic about the opportunities that we've got in front of us.

Q: The slide you had on February 11 last year, you had upside of around 70%. How much of the gap has been closed?

NW: It was 70% and it's now just over 30%. The long term average is below 30%. When we look for new ideas we're always looking for a minimum of 25% upside over two years. When you think about that typically a portfolio will have stocks in it that are almost at fair value and stocks that have just gone in, so the blended average is going to be typically less than that, so to be over 30% is still very attractive.

Q: Could you comment on the yield in the fund, both running and what the shareholder ends up with?

NW: We don't focus on the yield of the fund specifically, that's not the objective of this fund. We have a separate fund, the Global Equity Income Fund, which provides that and I think the yield there is 3.6% to the shareholder. In the global strategy we think about the total return on the investment but we don't specifically target a yield for the portfolio. The fees and expenses come out of that dividend income stream before you get it, so you are going to get about 1% I think in terms of income, for a portfolio with a dividend yield around 2.4-2.5%.

Q: When you look at the value versus growth index, do you just look at what the index providers give you or do you try to make other adjustments to look solely at capital yield? Earnings can be so manipulated, they can be propped. How do you reconcile that?

NW: We don't try to adjust. We just take the MSCI World Growth Index price and the MSCI World Value price and we just put one over the other as an indication of the trends in the market.

Q: What do you attribute the value reversal to?

NW: We reached extreme levels of valuation at the beginning of last year, but we do think there's something in this interest rate point that Andrew was making. We borrowed the chart from Templeton but when we saw that chart, it did ring a bell and it does seem perfectly rational to us that as discount rates start to go up, then many of these companies, the Facebooks, the Amazons of this world, Netflix have cash flows well into the future and it does seem to have parallels with the late '90s and the dotcom boom era. You've got to go way out into the future to see positive cash flow and once you're discounting those cash flows with a higher and higher discount rate, clearly then the valuation in today's terms comes under pressure. If you look at a lot of the companies that we've been showing you, the sum of the parts, you're looking at value today that you get, it’s the cash on the balance sheet today. So we’re looking at much closer term cash flows.

Q: When I look at your portfolio, even with deflation, I don’t see much of a challenge there. Even if there is deflation, I don’t see how your portfolio doesn’t perform. Is it really dependent on an interest rate rising environment? I wouldn't say so. What about those people buying the Unilevers or Imperial Brands?

NW: No, that’s just a phenomenon we’ve observed and we can compare it to our portfolio. We can see how it might help the portfolio, but it wasn’t something that we set out to look for stocks that were sensitive to interest rates.

AG: But to your point about what we’ve seen in terms of the bond proxies, the consumer staples and so on and how they’ve been re-rated over time, coming out of the 2009 period, we had some of those investments, the Johnsons and Johnsons of this world, Microsoft etc. As time has gone on, we’ve gradually sold those as they’ve hit our price targets and we’ve not found value there anymore. We’ve shown the sector exposure, consumer staples, healthcare, very little there because we can’t find value, but people, we believe, have hidden there as bond proxies and that has driven valuations up and again they will suffer in the rising interest rate environment. But that’s not why we’ve created the portfolio that way it is a function of where we find value from a bottom up perspective.

Q: If you get new money coming in the fund or money going out, how do you make those decisions of what to buy and what to sell?

NW: Ultimately it’s the upside for the stocks, that’s what guides what we do. If it’s a very large amount of money, a big percentage of the fund, we’ll tend to pro rata across the portfolio but if it’s small enough, we will make individual stock decisions based on the upside we see in the portfolio.

Thank you very much for coming.