Oldfield Partners

Global Equities Investment Update

19th November 2018

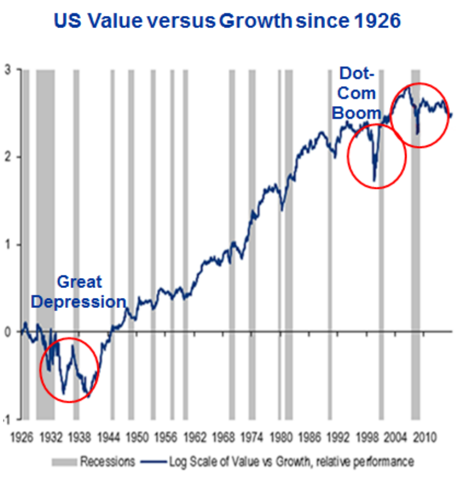
Oldfield Partners (OP): *Alexandra Christiansen = AC, Richard Garstang = RG, Andrew Goodwin = AG, Christoph Ohm = CO, Richard Oldfield = RO, Nigel Waller = NW and Sam Ziff = SZ*

NW: Thank you very much for coming. For those that don't know me I'm Nigel Waller, CIO and co-manager of the global equities strategy. This is Andrew Goodwin who is my co-manager, and we're going to give you an update on progress year to date. We're going to speak for about 40 minutes and then we're going to have Q&A. At 5 o'clock we will break for a cup of tea and then at 5.20pm we can reconvene and answer all remaining questions.

	£			$		
	Overstone Global Equity Fund	MSCI World	MSCI World Value	Overstone Global Equity Fund	MSCI World	MSCI World Value
2018 to date	+1.7%	+3.6%	+0.9%	-4.1%	-2.3%	-4.8%
2017	+7.9%	+11.7%	+6.9%	+18.2%	+22.4%	+17.1%
2016	+44.5%	+28.3%	+34.1%	+21.1%	+7.5%	+12.3%
Since inception annualised*	+8.8%	+9.4%	+8.2%	+6.0%	+6.5%	+5.4%

Performance shown is of the A shares, calculated on a Total Return basis net of investment management fees and expenses. Index is MSCI World (Net Dividends Reinvested) and MSCI World Value (Net Dividends Reinvested). Source: OP, Bloomberg, Northern Trust Ireland and MSCI ©. Data as at 31st October 2018. * Inception Date is 1st June 2005.

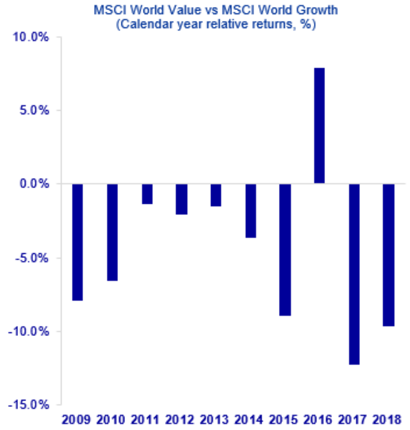
So, let's start with performance. On this chart, you can see that we are just behind the MSCI World year-to-date but just ahead of the MSCI World Value, our style benchmark, so we're doing what we say on the tin as a value manager. While performance remains less than sparkling overall, we are pleased to see a recovery from the position we were in earlier this year. This year has been another difficult one for the value style, with growth stocks enjoying spectacular performance through to the end of September. In October, we saw a change in market sentiment and November is carrying on in the same vein, which we hope continues for the rest of year and beyond! Although 2017 was also a difficult year for value, 2016 was the only year in the last 10 where value outperformed growth, and you can see that we had a very good year in that environment.



Monthly data. Average returns of Fama-French Large/Small Value benchmark portfolios. Source: BofA Merrill Lynch Global Investment Strategy 7th June 2016, Fama-French.

So this chart, for those of you who have seen this before will either be very comforting or you'll be sick and tired of seeing it, but it's there to remind everybody that value investing works, this is the only history we have and this shows you value investing relative to growth investing and because it's bottom left to top right, it shows that value investing outperforms growth over the long term. The red bubbles show you that there have been significant periods where value does not work and growth leads, most notably in the Great Depression and then a very short and sharp example around 2000. Over the last 10 years we have an underperformance of value which rivals that seen in 2000 in scale but it has taken as long as the Great Depression to accrue. We are now within a matter of days, I think, of equalling the historic length of 10 years of value underperforming growth.

Value has only outperformed once since 2009



Source: Bloomberg end May 2018.

This extended period of headwind for the value style has asked questions of all value managers and tested both their, and their clients' patience. We have resolutely stuck to our philosophy throughout. We know that over the long term our style of value investing works. However, this chart shows that this is in stark contrast to almost all our competitors who have drifted over time as the commercial sensitivities of life have meant that they have softened their approach to value. This chart shows that in 2016, the only year in which value out performed growth in the last decade, how we and the global universe of global equity managers looked in 2016.

OP the best performing Global Equity manager

Source: Intersec 2016.

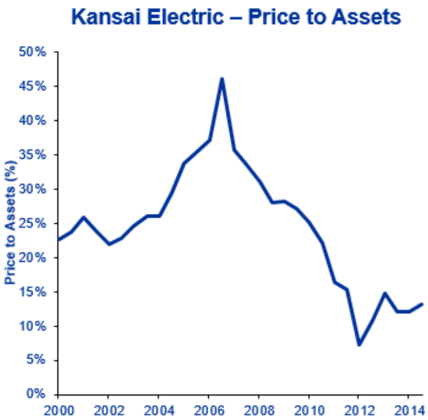
What you can see here is that we did relatively well in a year where value managers should do well but what's terrifying is that 99 per cent of managers underperformed the MSCI World Value, shown on the chart by the little triangle at the top of the block of manager performance. So, our point there is that we do what we say on the tin while almost all others value managers have drifted in style. When value comes back you need to make sure that you're with the right value manager!

AG: So, turning to the fund itself what we have here are the runners and riders for the year, and first to the top five single stock detractors. You will notice that the top two of them are Korean, for very different reasons, and what we will focus on is Korea Electric Power, otherwise known as KEPCO. The other three detractors for the fund there are financials. On the contributors for the year, there's no surprise to see two oil stocks, it's been a strong year certainly for the oil price itself and for oil related names, but again here we have Kansai Electric Power which also calls itself KEPCO, one Japanese and one Korean, and we will just focus on those two in terms of what's been happening.

Top 5 Contributors	%	Top 5 Detractors	%
Lukoil	+0.9	Korea Electric Power	-1.2
Kansai Electric Power	+0.9	Samsung Electronics	-1.0
Sanofi	+0.8	Lloyds	-0.9
Eni	+0.5	Mitsubishi UFJ	-0.8
Hewlett Packard	+0.4	Nomura	-0.7

Source: OP, Bloomberg and MSCI ©. Date: As at 31st October 2018. % = the contribution to relative return of a representative global portfolio versus the MSCI World (Net Dividends Reinvested) Index in USD terms.

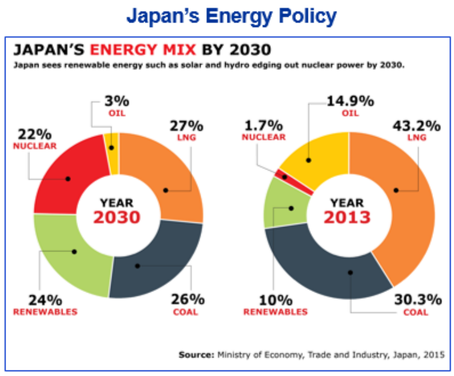
Firstly, Kansai Electric. It remains an unreconstructed old-style electric utility, it owns the generation transmission and distribution, it's the third largest electric utility in Japan after TEPCO which had the issues with the Fukushima Plant and Chubu. The Fukushima nuclear disaster was a



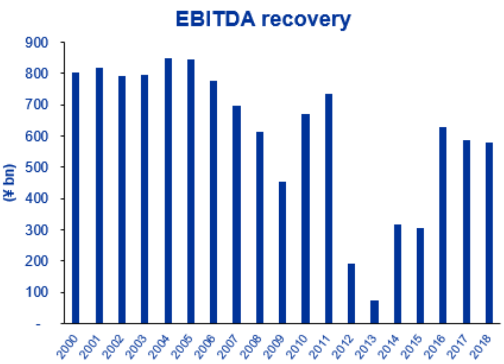
Source: Company and OP Research. Date: As at 31st March 2015.

catastrophe for these 'EPCOs' and for Japan as a country. What it actually meant was that Japan took all 47 of its nuclear reactors offline post the earthquake, so when we alighted on Kansai around late 2014, early 2015, all these nuclear reactors were offline, so Japan was generating no power from them. Kansai previously had relied on around 50 per cent of its generation from nuclear, and you can see here that what happens is investors flee from this, they don't want to know and it becomes too hard and - certainly there were lots of issues.

What was very interesting for us is that the government and the companies themselves were determined to bring these reactors back online. This is a key chart that came from METI, the government ministry which shows that they were aiming for 22 per cent of their generation capacity to come from nuclear in 2030 and that's in stark contrast to Germany, where they absolutely abandoned nuclear and stepped away. Japan however absolutely needs it for strategic reasons.



So it was producing, as they say in Japan, 'red ink', because with 50 per cent of its capacity off-line it then had to run its conventional thermal generation 24/7, buying in very expensive LNG. This meant that fuel costs went from around ¥300 billion a year to ¥1.3 trillion, so we had this red ink situation. Now we're contrarian at heart and contrarian in nature, so whenever we see this and we see investors fleeing an area then that's exactly where we need to be heading, we want to be doing something very different to what the market is doing. So we focused on our own research and at the heart of the Kansai investment thesis, a very simple thesis, was that actually these nuclear reactors would come back online. The company and the government were both in favour of this, and the company itself was spending huge sums to achieve it and meet much more stringent compliance measures.



Source: Company and OP Research. Date: 30th October 2018.

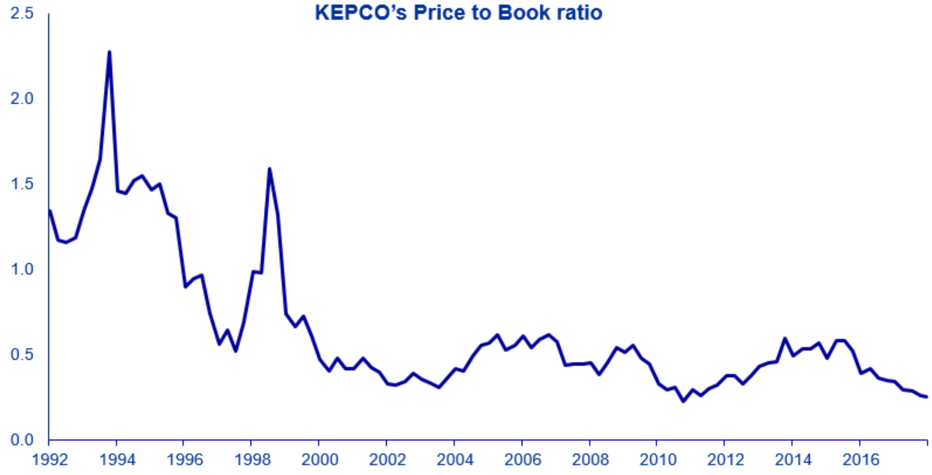
What we had to do was our own research. We had to build from the bottom up in discussions with the company what the return to service schedule of these reactors was, and then model it ourselves in terms of what that would mean in terms of fuel cost and ultimately the profitability of the group. What you can see here is the EBITDA lows and troughs that we hit and how we actually have now started to see the EBITDA recovery come through because the eagle eyes amongst you will spot that the green here on this table signifies the reactors coming back online. So this is the year we're in now, we have 4 reactors back online but there's 3 more to come. Now there's been a lot of headwinds around this a lot of noise around the investment thesis. First there were the tariffs, the interplay of tariffs meaning they had to put up their rates in order to not print red ink which was very politically unpopular in Japan, so a lot of people questioned whether it would ever happen. Then we had the injunctions from the local courts in Japan, which ruled to suspend the operations of the newly restarted nuclear reactors. Again, market analysts just felt this was too complicated, and too hard, particularly in Japan where we find the market analysts are very risk averse. If you put these reactors coming online into your forecasts, then you were way ahead of consensus numbers, which is exactly what we did. We focussed on our own research, and our own analysis, and this is now starting to deliver, although what we could contend is that we're only part of the way through this investment thesis, but there is more to come because every one of these reactors as they come online allow it to reduce its fuel costs even further, and there is certainly three more to come. So the message is to be patient, and focus on your own research.

Return to service schedule

Reactors		Capacity	Start	Age	Mar-19	Mar-20	Mar-21	Mar-22	Mar-22
Mihama	1	320	Nov 1970	45	0.00	0.00	0.00	0.00	0.00
	2	470	July 1972	43	0.00	0.00	0.00	0.00	0.00
	3	826	Dec 1976	38	0.00	0.00	0.75	0.75	0.75
Ohi	1	1,120	Mar 1979	36	0.00	0.00	0.00	0.00	0.00
	2	1,120	Dec 1979	35	0.00	0.00	0.00	0.00	0.00
	3	1,180	Dec 1991	23	0.86	0.85	0.75	0.75	0.75
	4	1,180	Feb 1993	20	0.86	0.85	0.75	0.75	0.75
Takahama	1	826	Nov 1974	40	0.00	0.45	0.75	0.75	0.75
	2	826	Nov 1975	39	0.00	0.00	0.75	0.75	0.75
	3	870	Jan 1985	30	0.86	0.85	0.75	0.75	0.75
	4	870	Jun 1985	30	0.86	0.85	0.75	0.75	0.75
Total Nuclear output					3,526	3,857	4,934	4,934	4,934
Nuclear capacity					6,578	6,578	6,578	6,578	6,578
Nuclear capacity factor					*53.6%*	*58.6%*	*75.0%*	*75.0%*	*75.0%*

Source: Company and OP Research. Date: 30th October 2018.

NW: Now we will move to the other KEPCO, the Korean KEPCO. This is effectively a monopoly electricity provider in South Korea. It's 51 per cent owned by the government, it has a 100 per cent monopoly on distribution and 75 per cent share of power generation. This was an incredibly cheap company we came to it in March 2017, and we wrote about it in that month's newsletter where we noted that, at one third of book value, we found it to be as cheap as it had ever been. This was a business where profitability was under pressure, fuel costs had risen but they had not been granted a tariff rise and their returns were under pressure, and we felt it was a matter of time before the government, for reasons I will talk about on the next slide, would come to their senses and would allow a tariff rise to come through to bolster the return of the business and meet the return allowed in the regulatory framework at which time we thought it would be worth about half of book. Over the very long term it has generated a five per cent average return on equity. We noted that it would take some time and require patience.

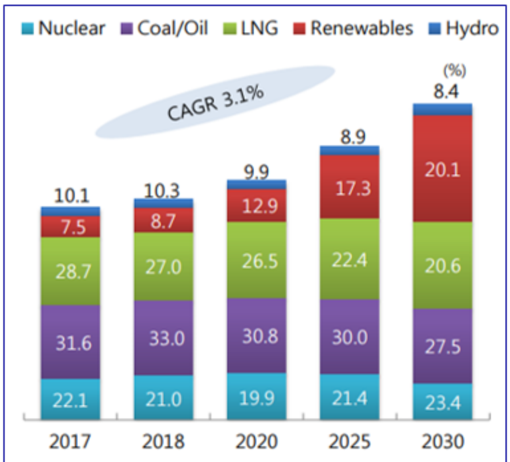


Source: OP, Bloomberg. Date: As at 30th October 2018.

Well, I'm afraid to say that so far, we have yet to see a tariff increase and it is now valued at twenty percent of book and, depending on the day, is now the cheapest stock in the world on a book value basis! Any fall in fuel costs (largely coal and gas) or a tariff increase will be transformative to the valuation of the stock.

The power dynamics in Korea are actually very good, this is a dynamic and growing economy with, historically, GDP-plus demand for electricity. The new President of South Korea is very keen to change the mix of fuel away from coal and nuclear, to renewables and gas over the next 30 years. To do that the government needs a strong KEPCO. It is a business that is spending US$12-13 billion a year on capital expenditure. As I said already, the return on equity over the long term has been 5 per cent on average. We think that the return achieved will recover, that costs are peaking, and nuclear utilisation is already improving again. The new government has been conducting a fresh review of safety standards on all the nuclear power plants and so it has taken many of them out on a rolling basis for checks, and that is what has lowered the utilisation rate of the nuclear fleet over the last 18 months. For information, 60 per cent of their fuel costs have been coal, and 5 per cent have been nuclear, despite the fact that nuclear produces 30 per cent of the electricity.

Korea's 8th Electricity Supply & demand Plan



Yrs	2017	2018	2020	2025	2030
MW	116,968	121,455	131,832	150,432	173,732

* Source : The Ministry of Trade and Industry, Energy, Dec. 2017

So as you can see, as the utilisation of nuclear comes back up, that will be very positive for operating results, and we do think that a tariff hike will come because they are running nowhere close to their regulated allowable return. Half of book is our fair value, that's 115 per cent upside from today, but we do have to be patient. And we do think that it needs a strong company in order to achieve the long-term goals of the government, and to do that it does need a tariff rise, however unpalatable politically.

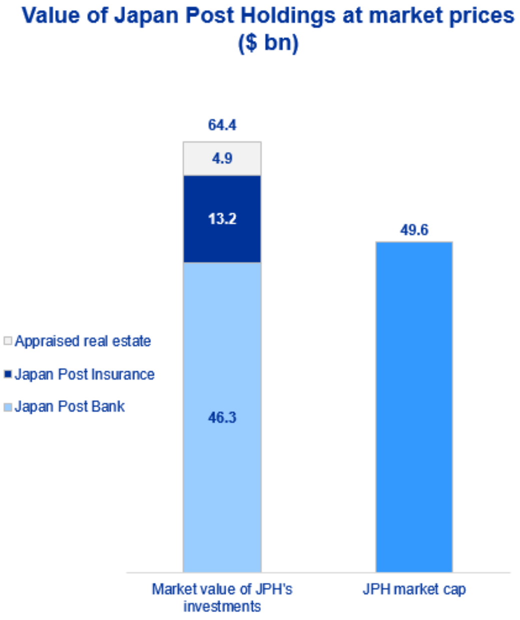
AG: This shows the activity of the fund over the year so far. It doesn't look like we have been very active, and typically we're not. We will have around 20 per cent turnover, and as patient long-term investors really what we're looking for is just a handful of ideas every year, although this belies the work that has gone on beneath that. We're going to focus on Japan Post Holdings, and our latest purchase of Siemens in the next few slides. Just a quick word on Lukoil, the only investment that we fully realised and sold out of for the fund, it's made around a 40 per cent return for us, total shareholder return, which is in line with the index, but actually from the old price lows we have made a 250 per cent return, and that's when we actually added our second bite, at that point. So we're quite pleased that,

	Purchases	Sales
Q1 2018	Sanofi, Japan Post Holdings	-
Q2 2018	-	-
Q3 2018	-	-
Q4 2018 to date	Siemens	Lukoil

Source: OP. Representative global portfolio used.

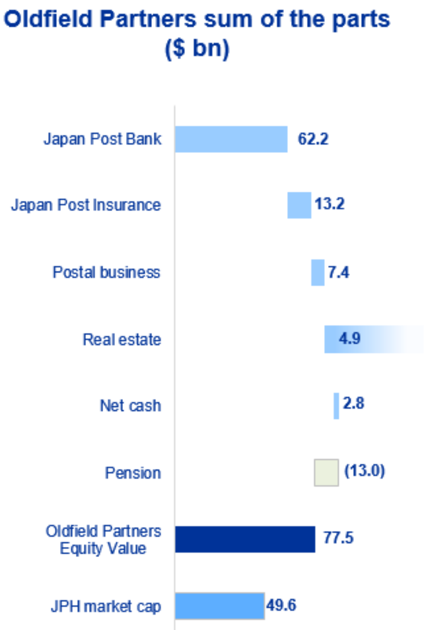
even with the environment of Russia and what's been going on, we feel we've done well in Lukoil.

Now turning to Japan Post Holdings, and why we are investing in a Japanese post office when everyone knows that post offices are terrible businesses! Mail has been in decline by 3 or 4 per cent every year for the past 20 years, and it's going to continue, so why invest in a post office? Well firstly, it's a rare bargain in the global markets today because there are listed comparables where you can build up a very simple sum of the parts, and you're buying at around a 30 per cent discount today. So on this chart here, what we have is the bank, and what we should say is that Japan Post Holdings actually owns the largest deposit base in the world via Japan Post Bank. It's listed 11 per cent of that; and actually owns the largest insurance company in Japan by number of policies written, and it has listed 11 per cent of that. Then we have a market appraisal value, for its rental property business. The first chart that we are showing you here is not our valuation, it's what's out there today in terms of the two listed subsidiaries, and the rental property. So we have not even put a value on the postal business here, and we're buying it at a 30 per cent discount. Now that might be it if you felt that these component parts were accurately valued by the market, but we don't think that's the case. The biggest source of value creation from here is probably in the Post Bank itself, principally because it's got around 25 per cent of its assets stuck in cash, earning zero.



Source: OP and Bloomberg. Date: As at 26th April 2018.

Now, in Germany post the financial crisis, when deposits were valued, and people wanted lots of liquidity and deposits, Deutsche Bank bought the Post Bank business on a price to book of 0.8. The Post Bank in Japan today trades at 0.4 price to book because clearly in a world where we have zero interest rates and zero yields you don't want deposits, but that could certainly change, and the bank itself is taking action by investing in strategic investments to improve the return. So we can see a situation where the returns on the bank could double from here, and that's just by deploying some of this cash at around a 1 per cent yield. We use the market value for the insurance business, for the postal business we think there is value, and one of the key things here is that yes, there is a decline on the mail side, but the parcel side is growing great guns, and so you have got a

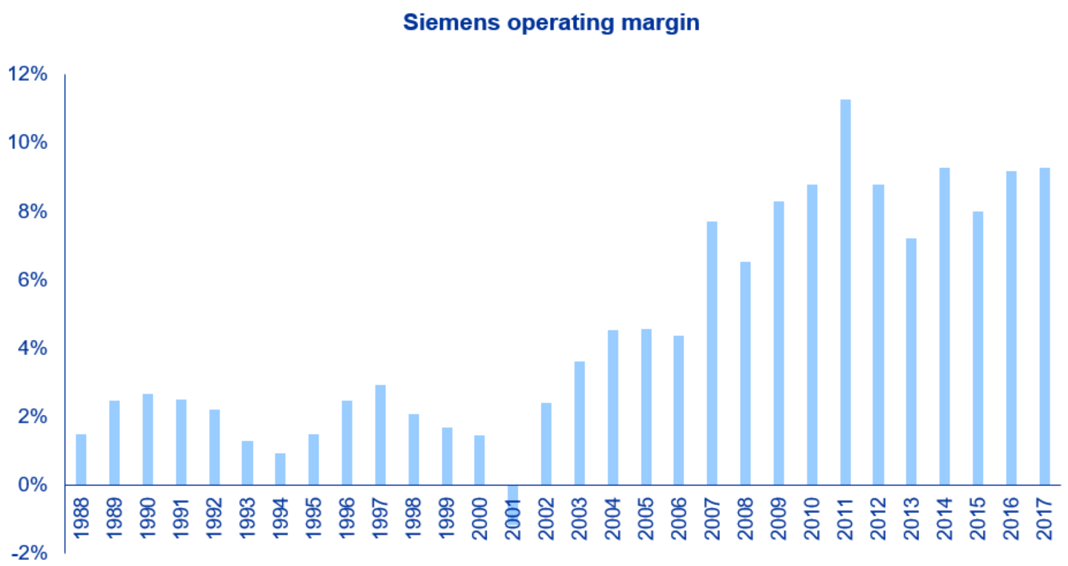


Source: OP and Bloomberg. Date: As at 26th April 2018.

positive trend, for example on Amazon in Japan, and are seeing parcel growth there.

Also important, and this is key for the Japan story as well, is that they are now improving their pricing, so when we recently met with the management of the postal side, they put through last year an 8 per cent price increase. That's the first price increase for mail in 23 years. They reckon there's another 20 per cent that they can push through this year and that's incredibly accretive to value, but we have not got a huge amount there. We've got the real estate and the remainder, and in effect we are building a case where we see around 60 per cent upside in this 'boring' postal business.

NW: Our most recent purchase is Siemens. Siemens is "value in plain sight", a term that we used back in 2006/07 to describe some of the holdings we had then: Microsoft, J&J, Pfizer, Heinz, quality businesses at unusually low prices and rather obvious to behold, and we think Siemens is in that category today. The price to book chart again was something that caught our eye and what you can see here is that the valuation today is around the bottom 25 per cent of valuations over time, but this business has changed dramatically since 2000. Those of you old enough to remember Siemens in the 90s will remember it was always restructuring, always looking for the next strategic deal with low returns on capital. Well actually since 2000 the management has got it together and they have genuinely changed this business. This chart shows you the operating margin and that makes the point very, very obviously – this business has changed! This is a name we know well and have been following since we invested in it in 2010, when we bought it at two times book, and sold it at three times a couple of years later - a very profitable investment for us.



Source: Bloomberg, November 2018.

We have looked at Siemens enterprise value today and stripped out the financial holding company debt to give industrial enterprise value of 83 billion euros. Siemens Financial Services is a dull but very profitable industrial lending and leasing business – this is no GE Financial Services!

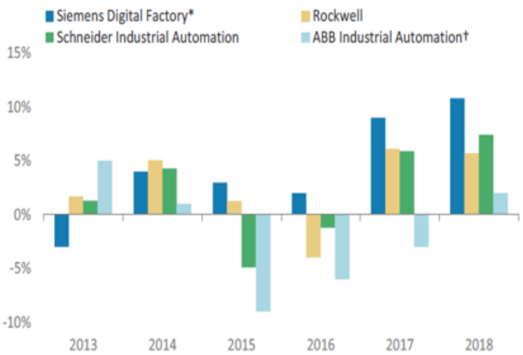
We have estimated what we think the earnings of the industrial business will be in 2020 and that implies Siemens industrial business is valued at eight and a half times operating profit, or earnings before interest and tax (EBIT). The current management team has been doing an excellent job in realising value, and to show the world the value that exists within the business. As part of this, it now has two listed subsidiaries. In the last 12 months, the company has listed a 15% stake in Siemens Healthineers, which is the number one health equipment company in the world. It is valued quite highly at 17 times EBIT but is very profitable and growing steadily. Siemens now owns 85 per cent of it

In April 2017, Siemens took their wind power business and merged it with Spain's Gamesa to create the world number one in wind turbines. Again, separately listed and valued in the market at a reasonable 12 times enterprise value to operating profit, and they own 59 per cent of it. Together Siemens's share of their enterprise values is €41 billion.

So half the enterprise value of Siemens industrial business is accounted for by these two listed businesses, both of which we think are reasonably valued, which is very important. And that means that the implied valuation of the remaining parts of Siemens is only 6.7 times enterprise value to EBIT in 2020, which we think is very attractive.

AG: So what are you getting for that other half of the EV? Well firstly you're getting an industrial automation business, and not just a business but the world leader, it calls it its 'digital factory', but this is across software and hardware platforms. One of the signs that it's a world leader is, as you can see here on this chart with Siemens in the dark blue, is just how much it's outpacing its peers. These are all well-respected companies across the US and Europe, but this division of Siemens is doing better than them, i.e. it's gaining market share and it's gaining market share in an incredibly attractive market. Independent analysis that we've seen is forecasting mid-single digit growth across the board to 2023. Siemens is outpacing that and it's delivering stellar results.

Exhibit 6: Industrial Automation: LT peer comparison – Siemens is gaining share



*Industrial Automation prior to FY15. †Process Automation prior to 2016. Source: Company Data, Morgan Stanley Research estimates (e)

So in our analysis we use conservatively high single digit organic growth to 2020. In the most recent results its orders grew 17 per cent in this business and that's underpinning the growth for the future. It's also very profitable - they're reporting operating margins of around 19 per cent and actually, if it were adjusted for some of the one-offs, and some of the investments they're making, its actual underlying margins are more like 22 per cent, so it's an incredibly profitable business and highly rated by the marketplace. We've used a range of peer group multiples here drawing on the US and Europe, and putting this business at 15 times EBIT. Now what this gives you is an EV of around €42 billion, so similar to what Nigel was saying for the listed parts of Siemens. So, if we add these two parts together, then you have got the whole of the EV for Siemens in the listed entities and the digital factory division. What does that leave us with? There's the listed holdings, the digital factory, and then the remaining value we estimate could be another €40 billion in EV. You've got a range of industrial businesses here, from Energy

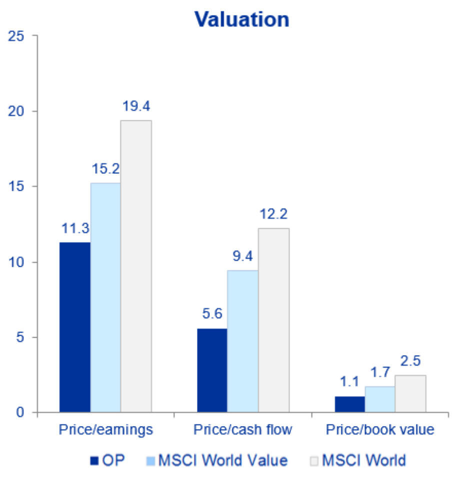
Management, Mobility, Building Technologies, etc. If you look at them in the round they're growing at mid-single digits and they are generating around a 10 per cent operating margin. We think that this can expand to around a 12 per cent operating margin,

In this remaining value is the power business, as Nigel was mentioning, which in 2014 was around a third of Siemens' profits, and that's the bit that has been under the cloud, and in effect has given us the opportunity in Siemens.

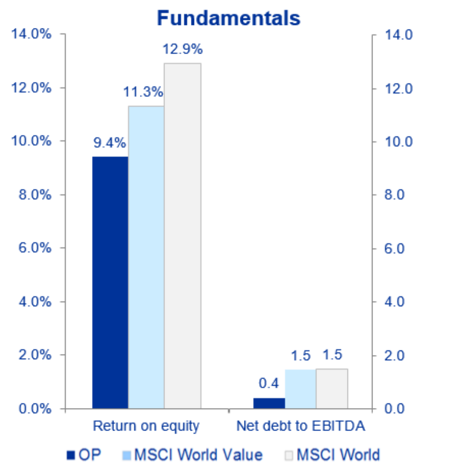
But the reason why Siemens is not GE, is the EV adjustment here that we've made in terms of the leverage. One of the key risk controls for us at OP, as value investors, is not combining high levels of financial leverage with operational leverage. Clearly, we've had that with GE and GE Capital, and we've seen the huge value leakage that's occurred as they have tried to deleverage. But the problems in GE were exposed by the power business, and that is not the case here with Siemens, even though we had similar exposure because of the starting balance sheet, and the leverage. We add all this together, and you can see we're getting well over 40 per cent upside in Siemens. Today the power and gas business is less than 10 per cent of our intrinsic value going forward, so we think it's a very exciting opportunity.

NW: I will just add that this valuation here equates to a share price for Siemens of about €148 against, around €100 today.

Siemens itself has set out a very aggressive set of plans in what it calls 'Siemens 2020+' strategic plan. If it achieves the top end of its margin targets and grows as fast as they think possible, about 5% per annum over the next five years, then we think this business could be worth around €230 –, so a tempting potential longer term for this business. It underlines also our conservatism in forecasting that we think we've got.



Moving on to portfolio characteristics, here on the left-hand side you can see the price earnings, cash flow, and price to book of the portfolio. What you can see in dark blue is that the valuation of our portfolio is roughly half that of the MSCI World, and two thirds that of the MSCI World Value indices, so it's very, very attractively valued.



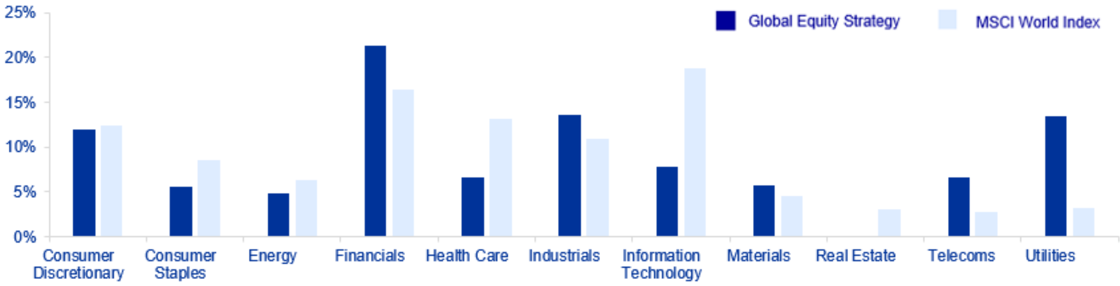
Source: OP, Bloomberg. Date: As at 30th September 2018. Representative global portfolio used. Based on MSCI method. Net debt/EBITDA excludes financials and includes only industrial net debt where applicable.

In terms of fundamentals on the right-hand side, yes we've taken a hit which is quite normal for us in terms of reported return on equity, 9.5 per cent against 13 for the benchmark but that's quite normal for our portfolio businesses because many of them have short-term operational issues which has given us the opportunity to get in.

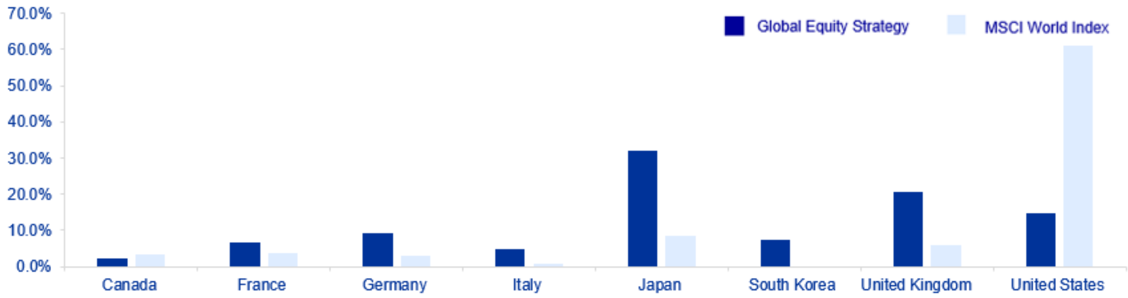
So that's part of the reason that the return on equity is lower, but here on the far right hand side, Andrew just talked about financial leverage and being cautious about combining it with operational leverage, and you can see here our net debt to EBITDA at 0.4 times is substantially below that of the index, so we are achieving these returns with a very different balance sheet to the indices aggregates, which is very important to us.

On this page, we have the sector weightings for the portfolio, with no major changes since we last updated you in March. Financials are still our largest position in the fund, a diverse set from the UK, the US and Japan, including Japan Post Holdings which Andrew just talked about. And on the far right hand side, we have mentioned two of the utilities we have, the other one is E.ON in Germany which is performing well.

The Telecom weighting is all BT and again we've come back to Telecoms in last 12 months for the first time in many years, seeing a value opportunity there.



Geographically we remain fascinated by the value available in Japan and that's why we still have about a third of the portfolio there. It's come down ever so slightly with the net differences between buying Japan Post Holdings and selling Kyocera which we did at the beginning of the year. And of course on the far right hand side, you can see we have very little in the US. We find very little value in the US, but the benchmark weighting is extraordinarily high given the success of the growth segments in that market in recent years.



Source: OP, Bloomberg. Date: As at 31st October 2018. Representative global portfolio used.

This chart shows the Shiller PE ratios, that's the current price, divided by the 10 year average profits to give you a sense of cyclically adjusted earnings, and what you can see here is that it's only been as expensive as this twice in history and neither of those ended very well, so we remain very cautious about the US market and the extent of the valuation expansion that you've seen there in recent years.

Source: Yale University. Date: As at 30th September 2018.

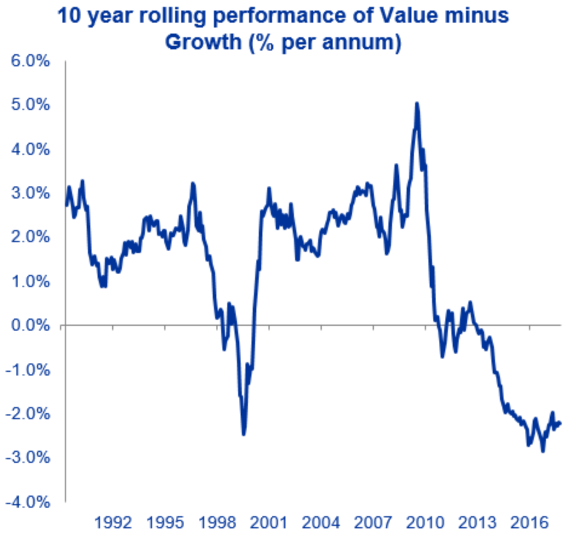
AG: This slide shows the whole portfolio of the global fund, all on one page so showing that we are a focused fund, focused on our best ideas. We're showing you more detail here than perhaps we've shown in the past, highlighting some of the different valuation metrics and methods we're using. The sum of the parts (SOTP) is one of our favourite areas, but clearly, as with all these, it's not done in isolation, it's very much about triangulation. If we're doing a sum of the parts, we also want to look and see if the price-to-earnings and the other common-sense metrics we use make sense to us.

Valuation	% Portfolio		Target Valuation (Analyst)				
Company Name		Share Price	Primary valuation method	Implied Price	Upside / Downside	Total return (2 years)	Resp.
BT GROUP	6.7	238	P/E	312	31%	44%	SJZ
SANOFI	6.4	74.43	P/E	91.00	22%	31%	SZ/RSG
E.ON	6.1	8.43	P/E	12.00	42%	53%	SZ
TESCO	5.7	213	SOTP	336	58%	64%	NW
VIACOM	5.5	30.46	SOTP	43.75	44%	49%	AG
EAST JAPAN RAILWAY	5.3	9,613	SOTP	13,380	39%	42%	JM
MITSUBISHI HEAVY INDUSTRIES	5.2	3,994	SOTP	5,589	40%	47%	AG
MITSUBISHI UFJ FINANCIAL	5.0	649	SOTP + P/B	925	42%	49%	AG
LLOYDS BANKING GROUP	5.0	57	P/TBV	81	41%	53%	RSG/SZ
ENI SPA	4.9	15.36	NAV & DACF multiple	17.50	14%	25%	NW
JAPAN POST HOLDINGS	4.3	1,315	SOTP	2,140	63%	71%	CO
KANSAI ELECTRIC POWER	4.2	1,788	EV/EBITDA	2,866	60%	66%	AG
SAMSUNG ELECTRONICS	4.2	41,400	PE + net cash per share	79,710	93%	99%	AF
NOMURA HOLDINGS	4.1	530	SOTP + P/B	878	66%	73%	JM
TOYOTA MOTOR	3.7	6,426	P/E + LT Investments	9,600.00	49%	57%	JM
HEWLETT PACKARD ENTERPRISE	3.5	14.57	P/E	23.28	60%	66%	NW
RIO TINTO	3.4	3,724	SOTP + P/Sales	4,900	32%	43%	HF
KOREA ELECTRIC POWER	3.3	27,100	P/B	57,919	114%	118%	CO
SIEMENS	3.0	100	SOTP	153	52%	60%	SZ
CITIGROUP	2.8	64.35	P/TBV + DTA	84.00	31%	36%	RSG
BARRICK GOLD	2.4	16.68	P/E @$1,600	25.10	50%	52%	RSG
GENERAL MOTORS	2.4	33.13	P/E	45.80	38%	48%	AG

Source: OP. Date: As at 31st October 2018. Representative global portfolio used.

Everything we do has a target price, the implied price shown here where in effect the intrinsic worth of that company gives us an upside, and a total return including the income that we will get there.

We have an expected total return of around 47 per cent over 2 years from this fund, and we think that's very attractive - certainly in the current environment.



Source: Bloomberg. Date: As at 30th September 2018. Indices: MSCI World Value and Growth.

In summary, this is the 10 year rolling performance of value versus growth. Actually, if you asked Richard I'm sure he would say that it turned in 2016, and perhaps now the turn is upon us. What we would highlight is that there's a long way to go for value to reassert that traditional relationship versus growth. As Nigel was saying, we firmly believe that value is the right way to go, it's the best way to grow capital over the long term and it's also the best way to protect your capital, which we have certainly seen in recent months. We offer that approach in a disciplined manner from an experienced team, and following this difficult period believe that we are now set fair for significant outperformance to come, and that we can capture that opportunity which is now at an extreme.

Q: What are the major assumptions in your sum of the parts in Japan Post and in Siemens that you think are potentially the greatest risk for you?

AG: The thing that makes the difference is the bank, and its valuation. As I was saying earlier, the bank today is valued around 0.4 at book. That is a low valuation for any bank in the world, and it's only in Europe where we see some of the more distressed banks that you really go below that. There is an argument that this really isn't a bank at all, in that historically it took these deposits and invested in JGBs. Given the low yield environment in Japan, it went overseas and invested in treasuries, and the swap spread has meant that that's now prohibitive, and so they are moving into other areas with their strategic investments. So it's probably wrong to call it a bank, because you don't have a credit default cycle to come through that you would in a traditional bank, unless the US government defaults. However, it is now returning around a 3 per cent return on equity, and that's incredibly low because it still has a bulk invested in these low returning assets. We're valuing the bank on 0.7 of book, and certainly the transaction of the Post Bank in Germany at 0.8 of book gives you a marker for that valuation, but we do need to see the returns improve I think to get there. We think they are doing that, because some of it is in their own control by moving into these strategic investment areas, but that's probably the area that's the most vulnerable in this.

Q: And do you worry about the transparency in the reporting on the returns in the strategic investments?

AG: When Nigel and I were recently in Japan we drilled into this with the CEO and his team. It's still early days, they want to move around ¥8.5 trillion billion into that area, they have got about ¥1.6trillion invested today, and as one of the key risks we did have a laser focus on this when we met with the CEO, and he did reassure us in terms of the expertise they have brought in from outside and that they will proceed at a measured pace. They won't rush this, and they don't need to given the unrealised gains that they still have on the balance sheet. That's absolutely what we have to focus on and make sure they deploy capital in this way.

NW: As for Siemens there is a short answer and a long answer. The long answer you're going to get from Sam in a second, the short answer is clearly it's a very cyclical company and clearly if we're wrong, if we think there was about to be a major downturn in the world, that will undermine our ability to reach the sort of valuation targets that we have set for different parts of the business. But Sam, over to you for the longer answer.

SZ: Yes, I think Nigel has hit the nail on the head, the cyclicality embedded, especially in the digital automation business. There are two key parts to that, there is the software side which is probably about a third of the revenues within there, and high margin, but two thirds of the revenue comes from effectively selling robotics parts and widgets and so on into factories and they are fundamentally very exposed to various capex cycles around the world notably automotive and China, they are two key trends that have been helping drive Siemens in that business in recent history.

Q: Can you spend a few moments on BT please, as the largest position, and a strong performer of late?

NW: A couple of things there, the first thing is the share price has been actually a very strong performer very recently, that's the first thing to say. The second thing is that our fair value has come down a little bit from when we first invested a year ago but in terms of the potential in the business, we are always weighing up the risk adjusted return. Each of these returns you see here comes with a different level of risk associated with it. In the case of BT we don't feel in a rush to reduce the position at this point in time, we think it's pretty defensive in an uncertain world and already very depressed in terms of absolute valuation levels, so we have not been rushing to take money off the table but it's partly because the stock has done very well very recently.

Q: Can you update us on your thinking on Viacom which was one your top picks in the past?

AG: Well they've just had results and I was surprised the stock wasn't up more on the back of that. Clearly the trends around Netflix and the negative trends around the traditional pay TV network, has continued, and they do have some headwinds still within things like Nickelodeon. But the thesis was about the new management team really galvanising the value that we could see within Viacom itself, and one of the key elements of that was the Paramount Movie Studio. Paramount had made losses for three years, and we felt that its value, which two years previously there had been reported bids for of around $10 billion- which was the whole value of Viacom when we were buying it-, just wasn't being factored in. What's great to see is the new management really getting to grips with that business, it's now profitable and it's delivering. And one of the reasons for the beat in the numbers, was actually the movie studio and the profitability that it was delivering, but also it's the Paramount TV production business. One of the great things about Viacom is its ability to create content In a world where content is becoming more valuable, and certainly more of it is being consumed, having that studio is an asset, and it was ridiculous to us that they had missed the trick by not going into TV, they had a nascent TV production business, but really the crown jewel had been the movies.

Under the new leadership now there's none of these 'silos' they talk about, and it's new management across the board The TV production business is going great guns and they are talking about doubling the revenue to around $500 million in 2019. They are making things for Netflix and everyone else, so are really starting to monetise these assets. It's a business that is controlled by National Amusements, and Shari Redstone has now really cemented control over the two entities of CBS and Viacom. This was never really in our original thesis, it was really about a turnaround and a realisation of the value in Viacom, but one of the old adages is that good stories get better, and Shari with control of both CBS and Viacom has made no secret of her desire to merge these two entities and - they used to be together and it makes perfect sense to bring them together again. Analysts talk about around 800 million to a billion of synergies, and this is on Viacom which is generating about $3 billion of EBITDA today so the value opportunity that can be realised here is significant.

Q: If a re-combination were to transpire, what kind of impact incrementally might that have on the sum of the parts' upside?

AG: At this point we value Viacom as a standalone, and that's always been our central case, and we still see significant upside in a standalone Viacom of around 50 - 60 per cent. In a merger it's not just the synergies that is value enhancing.

A big concern is that if you are seeing a gradual degradation of the Pay-TV environment, Viacom will have to take down on price, and that will really hurt in an industry that historically, had mid-single digit price increases. I do believe that the negotiating power a combined Viacom and CBS will have will actually significantly exceed the value creation than just pure synergies. So I think you could double the upside, in that merger combination.

Q: If you look at those stocks you've held quite a while, do you feel that you have been able to add some value by increasing weightings or reducing, or is it just a dip a toe and then double up, because it always falls, and then just cross your fingers?

NW: Thank you for your question. As a general we don't trade around our positions in an active way but there are certainly times we have had the opportunity to add to our positions and occasionally we have taken profits, where things have been particularly strong, particularly quickly, and we felt perhaps too quickly, but as a general rule we tend to invest, and if we are too early and we get a second opportunity at a new and improved price, we will take that opportunity. One of the keys to avoiding the value trap that we have come to is this concept of three bites of the cherry, and it's something that we've used forever, but we've amended it slightly over time by limiting our total investment to 10 per cent at book and also trying to space out those purchases so we don't rush into them. But we think that that methodology is very, very important to stop the value manager obsessed by the value pouring good money after bad forever and never stopping.

Q: Looking back has that worked? When you look at the points on the chart, do you think on your experience, on your own stocks?

NW: Well it varies, I mean I can think of some very powerful examples. We have a chart where Hewlett Packard we bought in 2011, we bought the third chunk in 2012 at about $14 a share, or $22 billion in market cap, and three years later it was worth $75 billion. So yes, it certainly has worked, but we also have examples of it not working, and I don't have a count of successes and failures at the 'bite level'.

AG: Just to say in terms of the price targets they certainly give us a discipline around that, and some of the smaller percentages holdings you see like General Motors and Citi Group, when they were hitting or getting very close to our price targets we actually halved those positions because there was limited upside from that point.

Q: Can I ask a methodological question? Clearly you guys are doing a lot of work on the side, and if we were to look down below the Barrick Gold and GM position, what have you been doing work on, and more importantly what's the trigger to allow one of those theses to come into the portfolio, and what is at risk of falling out of the portfolio and why?

NW: Okay, I will start with the last bit and go backwards. In terms of purchases, in a perfect world a stock will hit its fair value which we set at the beginning, we will sell it and then start something new, but there are often cases of the reluctance sale where you've found something, you've decided absolutely must go in -to your point. What do you get rid of? That's really a combination of upside potential left in the portfolio, risk associated with the upside, also the sector exposure you've got already and how does it fit in. In terms of work that we have been doing this year which haven't quite made it in, I suppose the highest profile name that we started looking at in January was General Electric, and Ali has had sleepless nights since January going through every possible permutation you can imagine.

I will let Ali talk about it, but just in conclusion we haven't been tempted yet, obviously it looks more attractive now than it did at 14! What stopped us was the extreme financial leverage combined with the operational leverage and those two things together meant that the margin of safety was basically non-existent. So that's the summary, and that's why we haven't quite got there yet, but Ali do you want to give a summary of the sort of work you've been up to and what you've been thinking about?

AC: I think you have just summarised it there. The financial leverage, not only at GE capital where there are still a lot of unknowns and a wide range of outcomes there, but also the industrial business itself, which is nearly 5x levered today. In a perfect strategic execution scenario this goes down to two and a half times which is still highly levered relative to peers.

NW: Exactly. Another name that Ali spent time on, is PG&E which for a point during the year looked quite attractive, and obviously horrific events more recently there, but the thing that stopped us, and we've talked about in the past, mistakes we've made where the outcome is binary. This was an example where we didn't feel the changes in legislative protection were sufficient for 2018, and the fire season was still very much an issue and therefore it turned out to us to be a sort of binary outcome and so we stayed away, but we did a lot of work on that too. Those are two examples of names, both US names, that we didn't decide to purchase in the end.

Q: 47 per cent upside is a pretty fancy number after a nine and a half year bull market. Does that reflect that it's getting lonely to be value investor, and is the degree of peak on something that's not growing or not glossy and shiny more than its historic average?

NW: It's clearly extended, it's not the highest it's ever been, in fact the weighted average upside on the portfolio was in the high 70s in February 2016, so that was the peak of all time, it was obviously very extended also in March 2009 in the high 60's. 30 - 31 per cent has been the average upside of the portfolio over that time. With every stock that we buy the absolute minimum upside we look for is 25 per cent over two years, but in this environment as you say, with the opportunities that we have it would need to be more than that to find its way into the portfolio today. It's not the most extended it's been through history, but it is certainly well above average.

Q: But I suppose it's fair to say that other value investors have done better, inevitably, and I wonder if you analysed why? Is it purely stock picking or do they have a different approach or methodology?

NW: We were talking earlier on in the presentation about the shifting of many value managers out there in the world over the last 10 years as they have become, if you like, less value-orientated than they have in the past as they have suffered the commercial pressures of seeing these wonderful stocks, so they found ways to own Apple and Google and Facebook and all these things, looking out whether it's a five year P/E or whatever it may be to give them the opportunity to own it. What you saw in 2016 is the only year in the last 10 where the MSCI World Value has outperformed the MSCI World, and so we looked at the performance of global equity funds in that year. What you can see here is this was our portfolio, this was the entire set of global equity portfolios that we track outside in the world, and this point here is the MSCI World Value. So what you can see is that in that year, the only year in 10 when value has outperformed, we did rather well but 99 per cent of asset managers underperformed the MSCI World Value, which tells you to your point that those value managers that have done well over the last 10 years, are not really value managers.

Q: Korea Electric Power have not raised the tariffs for a very long time. Is there some sort of political barrier to that happening?

NW: The short answer is yes, but Christoph do you want to say anything about KEPCO?

CO: The business is supposed to generate a 5 per cent return on equity over the cycle, but being majority government owned, the government also takes into account the health of the general economy, and at the moment the unemployment rate is I think 4 per cent which is quite high for Korea. GDP growth is at 2.8 per cent forecast for this year, a relatively low level for an emerging market. So the government wants KEPCO to support the local industry with cheap power. For instance, power is particularly cheap during night time hours which results in high industrial demand, to the detriment of KEPCO. In our opinion, once the Korean economy does a bit better, it is much more likely that industrial tariffs are going to increase.

NW: So, there is a political element to this.

CO: That's the main determinant. It's the biggest factor in the performance.

NW: You could also see a fall in coal prices would be very beneficial to the bottom line, assuming that the government didn't merely cut tariffs on the back of it, but that would also be a dramatic change in the profitability of the business.

Q: Is it a sort levered macro play that you're making about that investment decision?

NW: I think there is a macro element to it in the sense that the government is going to wait for slightly better times to put through that tariff increase, having recently being elected on a change in approach to power generation over the long term, they don't want to immediately come and say 'we're going to change to renewables and gas and oh, by the way, it's going to cost you a lot more money', that's something they are holding back on. But there is a regulated business with an allowed return, and they are not making the allowed return. Now we know from history that there have been significant periods where it hasn't had its allowed return, but history shows that they do get that tariff rise and it does improve, so we're just waiting patiently.

CO: To add to that, KEPCO was loss making for three quarters, driven by extended maintenance periods for nuclear power which were introduced after an earthquake in Korea in 2016. Maintenance periods lengthened from I think it used to be two months initially to several months, and the nuclear utilisation fell from 80-90 per cent historically to closer to 70 per cent this year. But a lot of that maintenance has been done now. Actually, in the most recent quarter the company has become profitable again. KEPCO will probably print red ink for this year, but they may well be profitable next year. So it's not quite fair to say that it's a total macro play. Clearly it helps if the macro economy improves, but there is a self-help element as well.

Q: How do you factor in risks like Brexit and Corbyn and Lloyds Bank, I mean the share price is the same I think as just after Brexit but it's been spewing cash, a lot of which has gone to the PPI thing, but how do you deal with those sorts of risks when you get to your price target?

RG: So I will start by saying that we are stock pickers rather than having strong macro or political views. Looking at Lloyds from a fundamental perspective, it has high market shares in many areas, it's predominantly a retail bank which is easier to understand and probably safer than banks with large investment banking activities, and it is one of the lowest cost operators with a cost income ratio in the mid-40s. It is currently earning a return on equity in the teens which is attractive but trades on just 0.9 times book value. With regard to credit concerns, we have stressed the loan book, particularly the mortgage book and the credit card book, looking at previous cycles and peak losses and we think that Lloyds could potentially go through a credit cycle without making losses even under these worse case assumptions. And it does start in a relatively strong capital position with a Tier 1 ratio of around 14 per cent. So we think Lloyds is interesting on a standalone basis over the long-run.

We don't have a strong view with respect to Brexit and how this impacts Lloyds over the long run. But in the near-term we think you get a range of outcomes on the price-to-book multiple because sentiment is continually changing. We don't think the actual book value will decline significantly under an adverse scenario and over a long-term term view we think it will continue to grow. But the multiple changes and could vary to anywhere between 0.6 times and 1.5 times looking at the historic trading range.

And, in many ways, as it becomes cheaper it does become more attractive to us because we think the fundamentals are good over the long-run. We can ride through some of the short-term concern. Ultimately we think that the UK will be okay, that's sort of the base case scenario, because market economies adjust. The UK is still one of the largest economies in the world and we have a leading bank trading at an attractive valuation.

We are also getting a 6.5 per cent dividend and some back backs because they are generating lots of capital now. And to your point on PPI, this has indeed been a huge drag in terms over the last few years, but it will come to an end next year with the PPI deadline.

NW: And one of the things we did before we bought it was to stress it, so we took the earnings of the bank to what they would look like if they suffered the sorts of losses in mortgages they did in 1991 and 1992, and the sort of personal credit losses that they did in 2009 and 2010, and we put those into the business and had it at just about break even, and still profitable. So we didn't feel that it's a terrifying prospect given the underlying profitability of the business.

Q: Could you talk a little bit about share buy backs? It's not exclusively a US phenomenon, but from an investment point of view it's potentially quite unattractive because they're not paying that money out in dividends, and they are not making acquisitions. How do think about it from a valuation perspective?

NW: The short answer to that is that we are very happy to see buy backs. Certainly in the global equity product we are not particularly worried about whether it comes back to us in dividends or buy backs. Obviously the price at which they pay in the buy back is very important to us. We don't want them to be buying back lots of stock at very expensive valuations. You tend to find in the US, and this is a huge generalisation, that they are motivated by earnings per share, they are driving that, and so they will buy back no matter what the valuation, which is very frustrating for a value manager to see when they buy them back at ridiculous valuations. So the price that you pay in a buy back is very important, and we were talking about MUFG earlier on, and the fact that it's buying back its stock at the moment at a big discount to book value, which is a very good thing.

But as a general rule we don't mind whether capital comes back to us, if it's not needed in the business, as a buy back or a dividend.

Q: Can I ask an investment process question? One of the things that is so admirable about the firm is that you guys have not suffered from style drift, but what is still left in the investment process that can be improved, where do you think you have made the most improvement over the last period, and how things can be refined further for your benefit?

NW: I don't have an exact answer to your question. What I would say is that every year as an investment team we sit down and discuss what happened in the previous year and go through our mistakes and our successes and see what we can learn from them. You are right, we haven't suffered from style drift and we have a very strong process at the heart of what we do which is really unchanged since the year dot. But what you have seen at the margin of course is very small tweaks over time. I talked about the value traps, trying to avoid them, and the enhancement to the original rule, which was three bites of the cherry, limiting amount of capital and timing out those purchases as a way to improve that element of the investment process. So there have been small changes like that over time, rather than any sort of big wondrous thing we have come across that has rocked our world, and that's something we think will continue, we will just find small things that we will learn lessons from mistakes that we make - hopefully quickly, and then we won't make them again, that's the plan anyway.

AG: And maybe just to add that GE I ,is a great example of lessons learned over this prolonged period. But certainly as a value investor when you are being contrarian and you require patience, if you have the wrong starting financial structure in an investment, then that can ultimately lead to a value trap, and huge value leakage over time. The analysis on GE's balance sheet and the cash flows, and really drilling into the dynamics there, and the moving parts, and the questions that were flagged up on very early on in our analysis have now, almost 12 months later, come out, and the stock price over that period has gone from $14 to $7. We will continue to do work on GE, but we've still not got over the line there, and in some ways I think it shows some of the learnings about value traps. It's not just about buying statistically cheap companies, the work that we do around that is so important.

Q: Richard do you have a view on my question?

RO: Well I would have said exactly what Nigel said about the three bites of the cherry, and I think that the 2008 crash did teach us a lesson or two about leverage and it doesn't make us avoid leverage, we have still got some leverage coming although as you saw at the aggregate level, our debt on average is always a good deal lower than that of the market. But we do invest in some leverage companies, but we need to see greater upside and to be very aware of the greater risk.

Q: How worried should we be about the effect on the stock market of massive debt in China, massive debt in the US, massive debt everywhere, interest rates going up, and if we have recession or a shock for whatever reason, the lack of ammo in central bank's armoury. Presumably it's something that you do think about in terms of thinking about what the potential downside is to your portfolio?

NW: Well as you said at the beginning, we are not really macro investors so we don't start with that view, and we don't stress all our companies for all of the above at once. We don't have an apocalyptic scenario which we run through all our companies. We have done on individual names where there are particularly sensitive things. We talk about Lloyds, for example, with the worst ever losses in different areas of its lending book.

AG: I think you do have to be careful about those views, to emphasis again as stock pickers, but if you have such a negative macroeconomic view, what you find is it filters through into every aspect of the portfolio. This one would probably be top of the list if that was really your view and so I think what's key is how we invest. Even though it's a focussed portfolio, it's a diversified portfolio, and it's diversified in sectors, in names but also in what I would almost term 'vintage', in terms of companies that are delivering today that we're seeing come through, some of the names down here where we talked about where we would actually halve the positions because they're getting close to price targets. You want companies that you've just invested in that have this very large margin of safety that may take two or three years to come right, and you have a diversification of those sort of names, those sort of themes within the portfolio, so you're not driven by one very top down macroeconomic view. Clearly we do worry about those, and the more that the US can normalise its interest rates, the more ammunition it will have. It probably means that this time hopefully we have a more normal recession, which could be very healthy, because what you could see then is if we just see a normal recession, and we don't have anything like the financial crash, then some of these companies like GM which has never quite achieved the rating that we felt was deserved because people are incredibly worried about the next downturn and what it means. So if we have a normal recession, it could actually be a very good thing for stock markets. But clearly we do worry about China, leverage and the impact that rising rates will have in some of these issues.

NW: I think, as Andrew was alluding to, if you're starting with a lowly valued portfolio, which we are, where many of the businesses are suffering cyclical downturns, like Siemens, which we've talked about already, pricing in disaster in its power and gas business, I know you can't eat relative performance, but if you look at our performance history over time when things have been very tough for global markets because of 2008 etc., we tend to do less badly than the market, of course in the sort of scenario you're talking about, almost all perhaps except Barrick will go down in absolute terms as valuation levels go down, but Barrick may do exactly the opposite as it did in 2007 and 2008. But that's really your starting point is you are looking to lose less than the market.

Q: I completely take your point about having a negative view, but on the other hand it is nonetheless a matter of fact that debt has gone up and up, and household debt has gone up and up, and with interest rates, if they're going anywhere, they're probably going up, I wonder if you think about your portfolio in terms of its more or less sensitivity to this?

AG: Absolutely we do, and what is interesting is that people have asked us 'how can you be investing in utilities in a rising rate environment, surely that means the discount rate goes up and values go down?' Again I think it comes back down to the individual stocks, because what's interesting in our utility holdings is firstly they're very different in terms of the drivers, but also for EON, one of the big sources of leverage is nuclear decommissioning liabilities, which as very long tail liabilities have actually suffered in a lower interest rate environment because again the lower discount rate means those liabilities have gone up and up. So actually in terms of industrial leverage, it's actually very lowly leveraged. So it should actually be a beneficiary of a rising rate environment if that discount rate that then is applied to the nuclear decommissioning liabilities goes up. I think we always bring it back to the individual stocks, and certainly you look at the sensitivities around that.

Q: And for the amount of work that you've done in the utilities space, and around nuclear I'm fascinated that there aren't any uranium-related holdings in the portfolio, why is that? Have you actually delved into the space and come away confused?

AG: It's a good point, and clearly there's lots of value investors that have gone into Uranium, we have looked at that. The main thing though is in this fund we focus on large caps primarily and there's just not a company of a decent size for us.

Q: Can you do mid cap?

AG: Yes, but certainly it's a contrarian and interesting space, and almost a natural extension if you do believe that nuclear reactors are coming back online. So we've looked at it, but just not found the investment opportunity really because of the size.

Q: What's the view on cash as an asset class, I know you guys don't like to charge, have you re-thought that at all? Or are you afraid of investor pushback if you decide to take an active bet to say we cannot find adequate value even though we're finding things that trade at 0.4 times what we believe is an understated book value, and therefore we choose to hold 15 per cent cash?

NW: We have never been in a position where we couldn't find something interesting to invest in, and our prospectus is quite clear in terms of our focus on minimal cash holdings, never more than 10 per cent, and very unlikely to be more than 5 per cent for any short period of time other than between stocks facing investment. So we are fully invested almost all of the time, and have never been in a position where we couldn't find something interesting to buy.

Q: I remember way back when, you explained why you only focus on big cap stocks, but there's a lot in the press about how you can only really find value these days in smaller cap stocks because they're under researched, etc., and I just wondered if over the years your views around that and whether or not you've ever re-thought that.

NW: No. We've had the same philosophy from the beginning, which is that there is always plenty of opportunity in large cap, because humans are emotional beings and they get overly pessimistic about news-flow and events, and that gives us opportunities as patient long-term investors who are contrarian by nature. So we've never found a shortage of opportunity, we like the fact that all the available information is out there and freely available so that we can make common sense and sort of longer term judgements about that information where the market is incredibly short term and worried about next month's results or the week after. So that's not something we worry about, that gives us our competitive edge, and gives the opportunity, so no we've never felt that we're constrained.

AG: I think it does vary from market to market, if you go to US small cap they are very widely followed. If you go to Japanese large cap, they're not.

NW: That's true.

AG: And Kansai is a classic example. There were analysts there, but Robert was reading reports in Japanese from METI, so we could understand the situation because they just weren't doing the research. Actually at that stage all the analysts were focused on the gas companies, because that was the area of the market that was being deregulated, that was the interesting part for them. And they had completely written off the electric utilities, they just weren't interested. So it does depend on the markets and again on the sectors I think.

Q: What would it take for you guys to get interested in Deutsche Bank?

NW: We have looked at it this year, and we've not quite got comfortable really on the de-leveraging of the balance sheet, and what that might cost, and what losses they will accrue when they do that, so, so far in the global equity product, we haven't been tempted.

AG: And the starting point for all the analysis of Financials has to be the balance sheet, and that's key. What you find in all of the Financials that we own, I think all of them are actually buying back shares, so they all have very strong balance sheets and that's essential. And we've been in and out of European financials, ING was a very successful investment, we did well in BBVA. We don't own any today but really it is understanding that balance sheet, and Deutsche it's incredibly difficult to understand whether they themselves understand is questionable, particularly some of these long dated derivative contracts, and the information isn't really there in the available reporting accounts. So people talk about it being the biggest hedge fund or a black box, there is an element of that within Deutsche Bank, although it's an incredibly low valuation, but if you have got that balance sheet wrong your equity is wiped out, it doesn't matter if you are on 0.2 of book, because your equity is worth zero. So maybe a huge rights issue to recapitalise, I think that will be the fifth one, but that might be interesting.

Q: So what do you think Hudson and people who are bringing purporting operational expertise to bear in the financial space see that everybody else doesn't?

AG: I mean it's statistically very cheap in terms of the actual operations. You have new management, and he seems to be doing the right things, focusing on costs. The real issue though, is because you've got the wrong starting leverage, in that de-leveraging process how much do you lose, and what we have seen in the recent results is that the revenues are falling away faster than they can cut the costs and until that dynamic changes, you are destroying capital in a bank that doesn't have capital to destroy. I mentioned the Post Bank that they bought, really that was a disguised rights issue, and that's continued in Deutsche Bank. So have they got to grips with the balance sheet is still the question at Deutsche Bank, and it is very difficult to know from the outside.

Q: May I ask one last question? If something were to change overnight and within six months the size of the fund would increase by 50 per cent in terms of AUM, would we see a material transformation in terms of portfolio composition, in terms of number of names, or concentrations or you would effectively just buy more of what you own?

AG: The latter, yes.

Q: So this portfolio can scale to a 50 per cent or a 100 per cent increase in AUM in the fund?

AG: Yes. And that's the benefit of the large cap focus, absolutely this could scale and absolutely we wouldn't increase the number of names on that basis. The portfolio is a focus on our best ideas, and that would not change.

Q: Can you talk about Tesco?

NW: I won't talk for very long on it, but this is a business that is doing all the right things. It's improving its operations, and the UK business is on track to deliver what they said they would deliver by 2020. The issue they have short term is one in Thailand, where they are trying to do similar things to that which they have done in the UK. In Thailand, and that has not gone as smoothly as they had hoped for originally. But we still see them in that 3.5 to 4 per cent margin range at the end of the next fiscal year. So yes, Dave Lewis has done everything he said he would do. He has simplified the business, he has simplified the product offering, reduced a number of SKUs, improved the pricing for customers. You can see that in the switching data, and they've reduced their market share loss quite considerably, they've even had a few quarters where they've actually gained share, and I think the biggest teller of all is that although you're still seeing in the Kantar data the deep, hard discounters gaining share, they're gaining share simply by rolling out new stores, their same stores sales are now very low, and that is a compliment to the work that Tesco and their competitors have done among the other four supermarkets in re-basing pricing of the value product, and reformulating it. One of the things that Tesco did very early on, was to bring out the Tesco value range, I'm not too sure many people in this room shop for that. It's not the nicest of packaging, it's very stark if you see it on the shelf, it's said to be a bit of a disincentive for some customers to get it out of the trolley and stick it on the top of the conveyor belt, and people around them know they are buying value, so it's been a disincentive for people to shop there where they can go to Aldi and Lidl and buy what look like brands, but aren't. Tesco have decided to copy them, and they have taken away basically their Tesco value branded product and replacing it with their own branded product which looks very good, they've reformulated them and improved the quality and dropped prices by an average about 16 per cent. So they're now as cheap as Aldi and Lidl on those thousand items that Aldi and Lidl sell.

Q: Could you say a bit about BT, I've been completely flabbergasted in the last sort of three months by the fact that they've finally seemed to have got good customer service. On the other hand I'm told that Google is putting low-level satellites everywhere, so in no time at all fixed lines and cables will be a thing of the past and in terms of balancing those two things, out of curiosity I would be interested to know, what made you buy BT apart from it being cheap obviously.

SZ: So we followed BT for quite a long time, through last year there were a number of issues, the first was a profit warning in Italy, the second Brexit, which meant that the pension was going to be a lot bigger given that long yields fell further, and then the third was around their relationship with the regulator, OFCOM. And so when we started investing in BT I think that was slightly below the current price. Our conclusion was that, as Nigel talked about, we come back to valuation every time and the valuation at that point was extreme, right at the bottom. Openreach, the fixed line assets, the copper assets, if you put the operating businesses, the businesses we engage with as consumers, the business that deals with Enterprises in a similar sort of fashion and their mobile business EE, which is actually the best regarded mobile business in the UK at the moment - if you put those on about 10 times, the Openreach assets, the copper lines were basically being valued at .2 RAB (that's the regulated asset base and these sorts of businesses tend to trade at a slight premium to regulated assets). So there was enormous value being implied in there at that point and we were looking at a dividend yield at that point which was over 7 per cent, so people were pricing it as if it had been cut and since then we've begun to see some of those issues dealt with so they have gone through their triannual review with the pension, so we have got visibility on that for the next three years. Again an example of a company that may benefit from rising rates, rather than suffer from rising rates. We could end up in a position where their pension is over funded if you believe in rising rates three or four years from now. They have started to deal with their regulator, the first thing that happened is the CEO has changed. Gavin Patterson has left, they've brought in a new CEO and I think that's part of the process of making BT deal with this issue that they haven't invested the right amount in their fixed line assets. But, at the same time they need to sort of manage the relationship with the regulator and the relationship with their shareholders. So the regulator wants them to invest very quickly, whereas shareholders are saying, well hold on a second. The management are very conscious of the shareholders having this point of view and they need to make a return on those investments. And so they are waiting for some kind of an agreement with the regulator before they go for the fully-fledged roll out of those fibre assets. Now what those fibre assets will ultimately mean is that we can get incredibly fast, incredibly reliable broadband to our houses. Now this is going to be a 20 to 25 year project in reality, and although Google may be doing low level satellite, they just will not be able to at the moment provide the sort of speeds that we might need in our households if we have AR and VR and all these other next generation technologies that require that level of bandwidth for the consumer.

Q: What do you think the investment community's consensus hurdle rate is in terms of a return on invested capital building out the fixed line network. From the work you've done, and I'm sure you have chatted around with other people, do you have a sense of what the embedded assumptions are?

SZ: So we think actually a lot of the pain may have been taken this last 12 months. So BT were probably not very good at communicating that they were over earning in their fixed line asset base and effectively in March just after we bought the shares they came out with another profit warning, which was basically to say the returns in the fixed line business have been higher than what the regulated returns were and they would come down to the regulatory return over the next couple of years. So the allowed regulatory returns are around 10 per cent, just below 10 per cent, that's on a pre-tax basis. Going forward what the company is saying, we're investing a huge amount in this new infrastructure, and I think the government would definitely accept that they should be allowed at least that return, but they're saying, but we are also taking risks here, there is no guarantees and there is lots of evidence to show there is no guarantees that people will take up that new technology and therefore they're saying, we deserve a higher return for a period of time around that new infrastructure. And that's really the point of debate around that.

I think the reality is it's going to take such a long period of time to deploy, I don't think you can pull out any sets of numbers from any analysts on a three to five year view and say this is what the return is, what the expected return is. But we have a floor and basically the earnings of Openreach are at that floor in our numbers for next year. And the consensus is broadly at that for next year as well.

NW: Thank you very much for coming.

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 necessarily a guide to future performance.