OP
Oldfield Partners

Overstone Global Equity Fund

2Q 2026 Commentary

Fund Performance (USD, %)

				Annualised		
	2Q	YTD	1 Year	3 Years	5 Years	Launch*
Fund (A Shares)	+13.7	+19.1	+33.9	+18.8	+9.1	+6.7
MSCI World	+13.8	+9.7	+21.3	+19.2	+11.5	+9.1
MSCI World Value	+9.2	+10.5	+20.8	+16.9	+10.5	+7.2

Performance is calculated net of all fees and expenses and on total return basis, inclusive of all distributions to unit holders.
MSCI World Value Index is for comparison purposes only.
*Launch date is 01 June 2005.

In Q2 2026, the fund rose 13.7%, while the MSCI World Index rose 13.8% and MSCI World Value rose 9.2% in USD, as the rebound in markets was dominated by the performance of AI-related stocks. The largest negative contributors were ENI (-16%, total return in local currency), Sanofi (-4%) and Fresenius (-7%). The largest positive contributors to performance were Samsung (+100%), easyJet (+61%) and Merck (+39%).

The two big issues in world markets are Iran and AI. Iran appears to have reached some new equilibrium, as evidenced by an oil price that has fallen back to its pre-war levels. AI does not seem to have yet reached that state – a 10x increase in the price of DRAM over the last twelve months, would tell you as much.

It is hard to know where the equilibrium sits, but a simple thought experiment may be helpful. The six largest spenders are scaling from $233bn of capex in 2024 toward ~$722bn in 2026 and roughly $1trn a year thereafter. This is approaching 30% of all US business investment. As we explained in a recent thought piece, this level of spending requires revenue in the trillions and profits in the hundreds of billions. This is unlikely on the time horizons required for the investment.

And this may not even be the worst case for investors. The worst case is the one in which AI proves genuinely transformational – cognitive output becomes abundant and its cost falls towards zero. The gains then accrue to consumers, in the form of deflation and higher real incomes, rather than to the providers in profits large enough to repay the infrastructure spending. The success of AI and the profitability of investing in it are not the same thing.

AI need not crowd out everything else. There are plenty of corners of markets which seem attractive to us. Many are neither losers nor winners in the AI boom e.g. consumer staples, healthcare, financials and the list goes on. The opportunity set for value investors is broadening as we find value in all corners of the market, outside those deemed to be AI beneficiaries. There is an irony we are happy to exploit: AI itself now lets us research these companies more thoroughly, and with greater rigour, than we ever could before.

Performance

Sanofi was a detractor this quarter. A run of disappointing late-stage trial readouts has revived the question that hangs over the company: whether Sanofi can establish enough new products to offset the Dupixent (its blockbuster immunology drug) patent cliff in 2031. We made the investment believing the market was already too gloomy about the Dupixent cliff, and we were early. We underestimated how much of the late-stage pipeline would disappoint.

Those failures contributed to the departure of chief executive Paul Hudson after six years. Belén Garijo, formerly CEO of Merck KGaA, took over in April with an explicit focus on improving R&D. She has moved quickly: in June the company named Paulo Fontoura, a long-serving Roche employee, as head of pharma R&D from September, replacing Houman Ashrafian after barely three years.

We are wary of reading too much into the management changes, and the market met both appointments with scepticism. But a board willing to hold management to account for the pipeline, with a chief executive focused on fixing the problems, is not the worst backdrop for an investment priced for disappointment.

Against this backdrop the business has done well. First-quarter sales and earnings both rose 14%. This is now a focused pharmaceutical business following the separation of consumer health, generating substantial free cash flow, with a conservative balance sheet and returning capital through ongoing buybacks and dividends.

Today's valuation effectively writes off the pipeline: the market prices Sanofi's ex-Dupixent business for gentle decline and credits the rest almost nothing. We think that is too pessimistic. The existing portfolio of drugs provides a solid floor, and merely stabilising profits beyond the cliff would, on our estimates, justify a valuation around 20% higher than today's. Anything the pipeline delivers is additional upside. A dividend yield of about 4.5% pays us to wait.

ENI, was unsurprisingly weak as energy prices fell on a tentative ceasefire agreement with Iran. It is on a single-digit multiples of earnings, even at these lower energy prices. We remain attracted to ENI for the low valuation and the protection it provides during energy spikes but had reduced it earlier in the quarter at higher prices.

easyJet was among the strongest contributors during the quarter, helped by the takeover approach from Castlelake, a US investment firm. Castlelake has raised its proposal repeatedly to 650p, valuing the airline at close to £5bn. The board has rejected each bid as opportunistic, arguing that they exploit a share price temporarily depressed by Middle East-related weakness and fundamentally undervalue the company. We agree. The approach vindicates our own view that the market had been mispricing the business: a very attractive set of assets, particularly its slot portfolio and fleet. We are encouraged that the board is holding out for full value.

Portfolio Activity

During the quarter we sold the position in **Kyocera**. We purchased the shares at around 0.7x price to book (P/B), with a fair value at the time of 1x P/B; today the shares trade at 1.5x P/B. We reduced the portfolio's energy exposure by trimming **ENI** and **NOV**. We also reduced **Samsung**. All three names approached our view of fair value.

Conclusion

We have left value winter behind, and value spring has arrived, though we still await the value summer. With the portfolio trading at around 11 times forward earnings and a weighted average upside of around 40%, the broadening opportunity set remains attractive for patient, value-oriented investors.

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