Emerging Markets - Composite

Patient, unconstrained, contrarian value investing

OP
Oldfield Partners

28 February 2022

Monthly composite review

Composite particulars

Launch date	01 January 2001
Comp. assets	US$249.4m
Structure	Composite
Base currency	USD
Benchmark	MSCI Emerging Markets

"A concentrated portfolio concentrates the mind..."

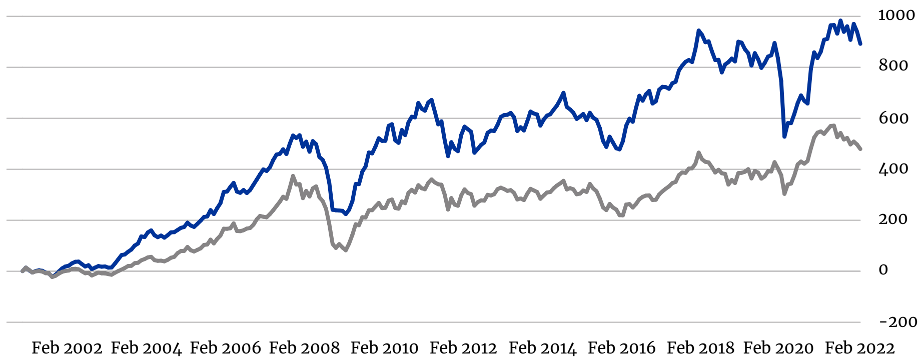
About Oldfield Partners

Oldfield Partners LLP is an owner-managed boutique fund management firm which manages equity portfolios for a global client base that includes endowments funds, pension funds, charities, family offices and individuals.

Oldfield Partners began operations in March, 2005 and is majority owned by the executive partners.

We are value investors with a distinctive approach: a limited number of holdings, long-only, no leverage, diversified, index-agnostic and suspicious of short-termism.

Composite performance (%)



	1 month	YTD	1 year	Launch	Annualised 3 years	Annualised 5 years	Annualised Launch
Emerging Markets Equity	-4.6	-7.3	+3.2	+891.2	-0.2	+3.8	+11.4
MSCI Emerging Markets	-3.0	-4.8	-10.7	+478.9	+6.0	+7.0	+8.6

Preceding five calendar years performance	2021	2020	2019	2018	2017
Emerging Markets Equity	+11.6	-3.7	+7.8	-5.0	+26.8
MSCI Emerging Markets	-2.5	+18.3	+18.4	-14.6	+37.3

Performance is calculated net of all fees and expenses and on a total return basis, inclusive of all distributions to unit holders.
Source: Rawlinson & Hunter, Alta Advisers Ltd, Oldfield Partners.

The value of all investments and the income from them can go down as well as up; this may be due, in part, to exchange rate fluctuations. Past performance is not a guide to future performance.

Fund manager commentary

The saddening news surrounding Ukraine negatively impacted emerging market equities in the month. The unfolding humanitarian crisis is at the centre of our thoughts. War is often unpredictable and can change the existing world order. Russia is a major producer of energy, metals, and food that will exacerbate the inflationary pressures already seen globally; however, otherwise its economic trade links have been much reduced by prior sanctions. A look at past stock market shocks shows that sell-offs can be dramatic, but very often unexpectedly short lived. Valuations for emerging market equities remain reasonable, and below their long-term historic averages. The upside potential for the portfolio is 70% as measured by the weighted average of the company price targets.

We do not know the outcome of the current Ukrainian crisis. One vision is of a new iron curtain across Europe behind which autocratic regimes the world over feel embolden to act. Another is of a failed military campaign by Russia leading to regime change with unknown outcomes and instability in Russia. We hope rational minds prevail. Political choice is often said to be picking the least bad outcome from a wider choice of bad outcomes. This war will end and likely with a Russian military advantage. A wider European war involving NATO must be avoided at all costs by both sides. It would be better if Russia is brought back into the international community and given a path to roll-back sanctions. Both the West and the Kremlin need to be seen to have achieved something. One possible scenario is that Putin steps aside for his chosen successor (an unstable political change would be highly risky). Ukraine remains a country but with no opportunity to join NATO in the future. Crimes are exposed and investigated. In a scenario resembling this it could be that Russian equities recover.

We must also not forget other near-term potential issues that are developing in emerging markets. China remains vulnerable to outbreaks of the Covid virus across the country, with Hong Kong succumbing, and the Chinese property sector remains under pressure. China is a significant global economic power integrated into world trade unlike Russia. Energy and food inflation can have knock-on consequences in many emerging markets. Energy shocks often have a negative and destabilising impact on the world economy. More positively the developing world is recovering from Covid and vaccination rates improved allowing economies to regain strength.

The bottom performers by contribution for the month were Lukoil and Embraer. **Lukoil** (Russian oil & gas producer) is our sole equity holding in Russia (through its ADRs) and the share price has fallen over 90% to date. The local Russian stock exchange remains closed. Russia was 3.5% of the MSCI Emerging Markets Index prior to the Ukrainian crisis (and will soon be a zero weight). The merits of Lukoil as a stock are its extremely depressed valuation, strong balance sheet, a non-state company, low operating costs, with a history of good

Commentary - continued

corporate governance. Lukoil and its management team have never been sanctioned. Oil at $100 a barrel and the rouble at 100/$ would otherwise be a positive backdrop for Lukoil, and it is highly likely the flow of oil and gas from Russia will continue just as it has through many difficult times since WW2. The decision for many investors is if they wish to be invested in Russia at all in these circumstances, and so arguably by proxy with a pariah government, and currently there are many sellers (including some forced sellers) heading for the exit at the same time. There is also the possibility that Russian oil producers could be seized by the government on the pretext of being strategic to the war effort. We continue to hold Lukoil (noting it is held at a nil price in the portfolio as of 3rd March 2022). **Embraer** (Brazilian aircraft manufacturer) has seen aviation stocks pressured by rising oil prices and limitations on global flight routes. Regional jets should be well placed in the industry with smaller aircraft being more cost effective and its focus on domestic US flights. The smaller planes in the latest generation E2 range have been put on hold, but the first-generation plane remains in demand. Embraer has seen its order book increase this year (to well over 3 years' worth of production) and its electric flight vehicle continues to gain global interest.

The top performers by contribution for the month were Buenaventura and Petrobras. **Buenaventura**(Peruvian miner) is benefiting from its exposure to precious metals and is a copper producer. Gold has regained some of its historic safe-haven characteristics. Buenaventura has sold its stake in the aging Yanacocha gold mine (for $300 million upfront) to its joint venture partner which will strengthen its balance sheet and assist in its own mine development programme. **Petrobras** (Brazilian oil producer) is benefiting from the buoyant oil price and sticking to its policy of domestic fuel price parity with international prices. Debt repayment has continued with asset sales and solid free cash flow generation allowing Petrobras to honour its new dividend policy. Petrobras prevailed through a dark chapter in its history to reach this position.

Russian holdings

Please note that as of 3rd March 2022 the holding of Lukoil ADR will have a fair value price (FVP) of zero. This has been determined by our Valuation Committee. Lukoil ADR listed on the London Stock Exchange (LSE) was suspended from trading by the exchange on the morning 3rd March 2022. We will continue to monitor the situation daily and update accordingly.

Composite analysis

Top 10 holdings (%)

		1 month total return (%)*	
	Weighting	Local terms	USD
Samsung Electronics	8.9	-1.6	-1.3
SK Hynix	7.7	+2.5	+2.8
Embraer	7.3	-10.2	-10.2
Thai Beverage	6.5	+3.7	+3.1
Telkom Indonesia	6.3	0.0	0.0
Buenaventura	6.1	+22.2	+22.2
Petrobras	6.0	+7.8	+7.8
Ternium	5.9	-2.5	-2.5
Indofood	4.8	-2.0	-2.3
Infosys	4.8	-4.7	-4.7

*Inclusive of portfolio activity.
All data as at 28 February 2022.
Source: Oldfield Partners.

Sector breakdown (%)

Information Technology	28.7
Materials	16.7
Communication Services	12.4
Consumer Staples	11.3
Consumer Discretionary	8.6
Industrials	7.3
Energy	7.2
Financials	4.3
Cash	3.6

Country breakdown (%)

South Korea	23.5
China/Hong Kong	15.4
Brazil	13.3
Indonesia	11.1
Thailand	6.5
Peru	6.1
Mexico	5.9
India	4.8
Taiwan	4.2
Turkey	2.2
South Africa	2.2
Russia	1.2
Cash	3.6

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