



Emerging Markets Investment Report

April 2017 Newsletter

Oldfield Partners

Performance Summary

USD terms	Emerging Markets Equity Composite	Index*
April	-0.8%	+2.2%
2017 to date	+6.4%	+13.9%
2016	+31.7%	+11.2%
1 year	+16.8%	+19.1%
3 years annualised	+4.4%	+1.8%
5 years annualised	+4.7%	+1.5%
Since inception**	+715.1%	+332.6%
Since inception annualised**	+13.7%	+9.4%

*MSCI Emerging Markets (Net Dividends Reinvested). **Inception 1st January 2001. Performance figures are of the Emerging Markets Equity Composite, calculated net of investment management fees and on a total return basis inclusive of dividends, inclusive of all distributions to unit holders. Source: Rawlinson & Hunter, Alta Advisers Ltd, Oldfield Partners, MSCI © and Bloomberg.

Performance of Five Largest Holdings*

Stock	Portfolio Weighting*	Monthly Performance (local terms)**	Monthly Performance (USD terms)**
Samsung Electronics	9.3%	+8.5%	+6.7%
SK Telecom	8.5%	-3.7%	-3.7%
Embraer	8.0%	-12.5%	-12.5%
Buenaventura	6.8%	+0.1%	+0.1%
Yue Yuen Industrial	6.5%	+0.6%	+0.5%

*As at end of period. **Total return inclusive of the portfolio activity. Source: Oldfield Partners and Bloomberg.

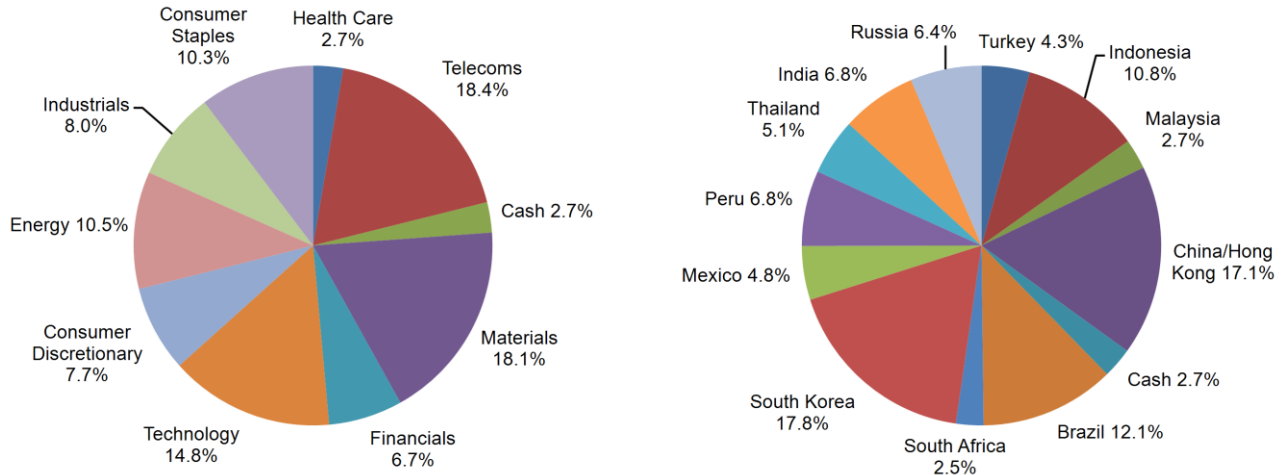
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Sector and country breakdown as at 30th April 2017



Source: Oldfield Partners.

Commentary

It has been a poor month and year-to-date for performance of the portfolio against the index. The relative underperformance comes after a strong year of outperformance in 2016. There is little to point fingers at in the portfolio to blame for the poor performance; rather the index, and some stocks, sectors, and countries we do not have exposure to, performed very well. The cyclical uptrend continued to advance, but broadened from last year's darlings - materials and energy - to areas such as commercial services, transport, media, retailing, and real estate. Countries such as Poland, Mexico, Chile, and India are star performers this year. Overall our portfolio companies continue to post solid financial results with upbeat guidance from management, and are on attractive valuations, so we remain confident in the 46% upside of the weighted average of our price targets in the portfolio.

The laggards during the month by contribution were Embraer, Infosys, and Lukoil. **Embraer** (Brazilian regional jet manufacturer) had a tough first quarter but held its year end guidance. Recent weakness has been from the business jet and defence divisions. 2018 is an important year for Embraer as its new generation E2 regional jets and KC-390 military transport plane enter service. It trades on a price to earnings ratio of 11 and a little below book value. **Infosys** (Indian IT services) has been weak on potential US visa reform, which may have a mild impact on margins, and a tough competitive environment for IT services. The company has announced it will increase local US hiring over the next two years. Management will increase shareholder returns by adopting a 70% payout of free cash flow per annum and additionally return a further \$2 billion to shareholders (of its c.\$5 billion in net cash). It trades on a price to earnings ratio of 15, which is towards the bottom end of its historic valuation range. One of the worst performing sectors is energy and by far the worst performing country this year is Russia, which has meant **Lukoil** (Russian oil & gas producer) has been a poor performer. Russia and energy are the cheapest valuation combination in emerging market equities. Lukoil has stood by

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its progressive dividend policy and has a dividend yield of 6.5% and trades on a prospective price to earnings ratio of five.

The top performers for the month were Samsung Electronics and Telkom Indonesia. **Samsung Electronics** (Korean consumer electronics) had fantastic first quarter results, which were overshadowed by the news it will cancel its treasury shares (13% of the total), moved to paying quarterly dividends, announced more share buybacks in line with the existing shareholder return policy, and it will look into further enhancing its shareholder return policy by year end. The company will not be restructuring into a holding company structure was a mild disappointment. It trades on a price to earnings ratio of 11 and net cash accounts for 25% of its market capitalisation. **Telkom Indonesia** (leading telecom operator in Indonesia) had strong first quarter results showing the strength of its network, ability to monetise data growth, and the competitive and regulatory environment remaining benign. The growth in broadband even allowed the fixed line division to post solid results. Indonesia is in a sweet spot for telecoms as data usage grows and smartphone penetration increases.

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