



Emerging Markets Investment Report

April 2018 Newsletter

Oldfield Partners

Performance Summary

| USD terms | Emerging Markets Equity Composite | Index* |
|------------------------------|-----------------------------------|---------|
| April | +0.3% | -0.4% |
| 2018 to date | +3.1% | +1.0% |
| 1 year | +22.9% | +21.7% |
| 3 years annualised | +11.6% | +6.0% |
| 5 years annualised | +6.8% | +4.7% |
| Since inception** | +901.4% | +426.5% |
| Since inception annualised** | +14.2% | +10.1% |

*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.

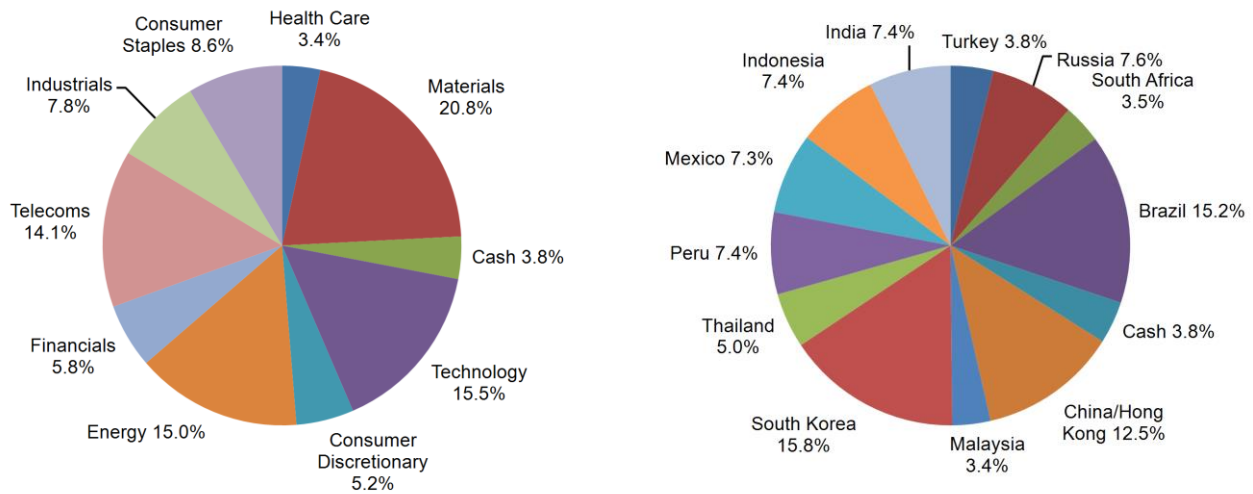
Performance of Five Largest Holdings*

| Stock | Portfolio Weighting* | Monthly Performance (local terms)** | Monthly Performance (USD terms)** |
|---------------------|----------------------|-------------------------------------|-----------------------------------|
| Samsung Electronics | 9.3% | +8.2% | +7.3% |
| Embraer | 7.8% | -2.7% | -2.7% |
| Lukoil | 7.6% | -3.0% | -3.0% |
| Petrobras | 7.4% | +1.2% | +1.2% |
| Buenaventura | 7.4% | +4.9% | +4.9% |

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

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.

Sector and country breakdown as at 30th April 2018



Source: Oldfield Partners.

Commentary

The bottom performers by contribution in the month were Yue Yuen and Turkcell. Yue Yuen (Hong Kong listed athletic shoe manufacturer) saw the collapse of the privatisation proposal for its retail division, Pou Sheng, whereby the proceeds would have been returned to shareholders. This is a huge disappointment for investors as it means Yue Yuen will keep its long-troubled retail operation, which is facing tough competition in China, will likely need to invest further in this division, and lose the substantial proposed special dividend (c.13% dividend yield). Yue Yuen is facing the prospect of increased automation investment faster than anticipated, although we do not believe the athletic shoe manufacturing process will be entirely automated as nimble fingers are still cost competitive. Not all manufacturing processes or industry suits automation. Indeed, as the brands (such as Nike and Adidas) look for increased short duration orders from manufactures there is still a benefit to the flexibility of labour for now and, although more volatile, these orders can be higher margin. Much will depend on how the industry evolves from here around the extent of automation and fast orders and this is less than clear. Historically Yue Yuen has been successful in responding to changing industry dynamics and keeping its core customers, but this will mean another period of change and margin pressure. This is well reflected in the recent fall in the share price, which leaves Yue Yuen trading on a price to earnings ratio of nine, price to book ratio of one, with a 6% dividend yield and a solid balance sheet. Turkcell (Turkish mobile telecom provider) was impacted by the negative sentiment from the macro and political travails of Turkey that are showing clearly in the recent 7% fall in the currency against the US dollar. Turkcell continues to do well operationally from its market leading position and the industry is behaving rationally against the backdrop of strong data and digital service growth. Turkcell is successfully developing a digital eco-system that it demonstrated at the recent investor day presentation and this remains a key focus. Pricing power is being maintained as it continues to increase prices by inflation. Management have reaffirmed the solid growth guidance for



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the year with revenues growing between 14-16%. Turkcell trades on a prospective price to earnings ratio of ten and with the ability to pay a dividend yield over 6%.

The top performers by contribution in the month were Ternium and Samsung Electronics. Ternium (Latin American steel producer) had strong first quarter results driven by strong steel prices in Mexico and the outlook statement by management was rosy. Ternium is well placed to benefit from Mexican industrial growth, especially for automotive production that is growing strongly, and in which Mexico still imports 70% of its needs. We still believe that NAFTA will be successfully renegotiated, and Mexico will not be subject to increased steel tariffs as it is a net importer of US steel. Samsung Electronics (South Korean consumer electronics) first quarter results and outlook had little to find fault with. The presidents of North and South Korea even met up to share a joke and a bowl of cold noodles as nuclear annihilation fears become so last year. Instead investors continue to fret over the semiconductor cycle and the end of smartphone growth. These are valid concerns, although with industry consolidation and decent demand we do not see a dramatic collapse next year, and the valuation reflects such an event already. Samsung Electronics trades on a valuation approximately half that of global technology peers. The company trades on a prospective price to earnings ratio of six (excluding cash), has a rock-solid net cash balance sheet, and will pay a 2.7% dividend yield.

Total assets for the emerging markets strategy are now slightly over US\$1billion, which is our capacity limit. If you are interested in making a new investment or adding to an existing holding, we therefore request that you contact us to discuss this.

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