

# OLDFIELD PARTNERS

## EMERGING MARKETS INVESTMENT REPORT

### JUNE 2015

#### Performance Summary

USD terms	Emerging Markets Equity Composite	Index*
June	-1.2%	-2.6%
2015 to date	-0.5%	+2.9%
1 year	-7.4%	-5.1%
3 years annualised	+6.2%	+3.7%
5 years annualised	+2.8%	+3.7%
Since inception**	+593.6%	+313.4%
Since inception annualised**	+14.3%	+10.3%

\*MSCI Emerging Markets (Net Dividends Reinvested). \*\*Inception 1<sup>st</sup> 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	8.4	-3.0%	-3.4%
Embraer	7.7	+0.7%	+0.7%
SK Telecom	7.4	+1.4%	+1.4%
Thai Beverage	6.2	+1.8%	+1.9%
Telkom Indonesia	6.2	+0.2%	+0.2%

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

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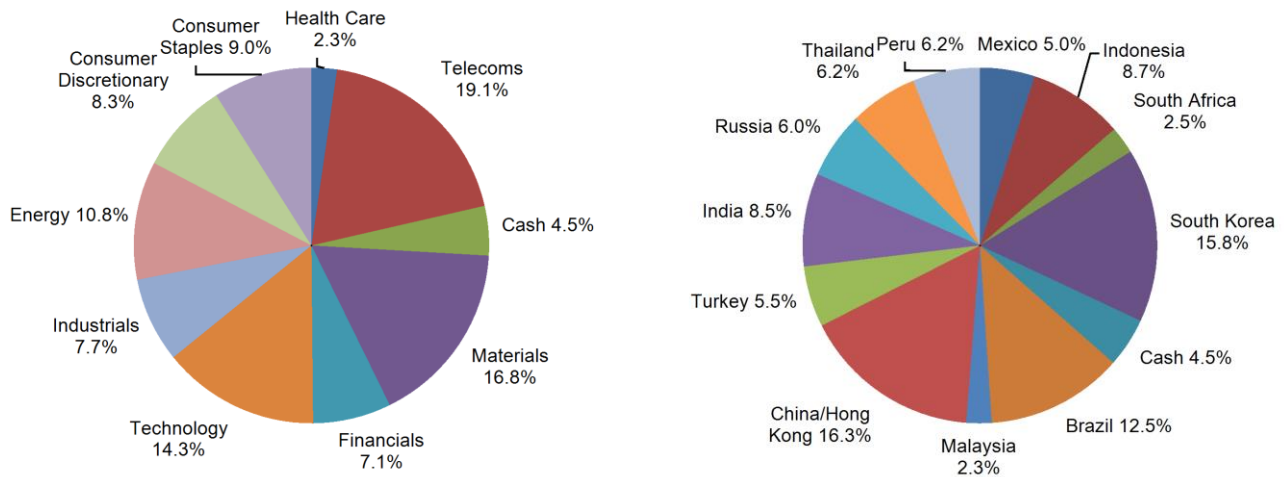
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#### Sector and country breakdown as at 30<sup>th</sup> June 2015



Source: Oldfield Partners.

#### Commentary

The news flow in the month has been dominated by the largest component of the MSCI Emerging Markets Index, namely China, and one of its smallest components, Greece. The Chinese local A-share market has fallen significantly (around 30%) since its peak in mid-June, and efforts by the government to keep investor enthusiasm up, including a high level of retail participation, are looking increasingly desperate, if not outright dangerous, such as allowing brokers to use property as collateral against margin (which is at very high levels). Commentators have suggested that the government is keen to keep the stock market buoyant to allow a wave of flotations of state sponsored entities and help relieve debt levels at provincial governments (as property sales have waned and anti-corruption measures bite). In the past the government has usually tried to moderate the stock market to protect retail investors, but this time restraint seems to be lacking. Clearly the recent losses on the Chinese stock market vastly outweigh the Greek economy and debt, but the Greek crisis has the risk of knock-on consequences outside its borders, whereas China looks to be a self-contained affair. We are happy to continue watching from the sidelines; our main exposure to China is a Hong Kong listed containerboard manufacturer trading on a price earnings ratio of 13 that we wrote about last month.

The worst performers during the month by contribution were **Ternium** (Latin American steel producer), **Lukoil** (Russian oil), and **Buenaventura** (Peruvian miner). The top performers during the month by contribution were **Eros** (Indian Bollywood films), **Top Glove** (Malaysian rubber gloves), and **Petrobras** (Brazilian oil). Petrobras released its new strategic plan at the month end aimed at deleveraging through lower capital expenditure growth and increased asset sales. This will lead to slower production growth as it takes a more conservative path to develop its deep water assets, but the capital expenditure emphasis is now clearly aimed at the upstream, and at higher return areas within it. Management re-committed to charging import price parity for domestic fuel prices (currently at a small

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premium on a blended basis), and that management were firmly in control of setting these prices. Overall this was as good as could be hoped for.

The worst performers over the second quarter were **Samsung Electronics** (South Korean consumer electronics) and **First Pacific** (Hong Kong listed financial holding company), and the top performers were **Lee & Man Paper** (Chinese containerboard manufacturer) and **Eros**.

It continues to be a difficult year for emerging market equities with a large net outflow from the asset class year to date, coming after the two previous years of large outflows. We have over 50% upside to the weighted average of the price targets in the portfolio, and believe that emerging markets are attractively valued.

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