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Oldfield Partners

Emerging Markets Investment Report

June 2016 Newsletter

Performance Summary

USD terms	Emerging Markets Equity Composite	Index*
June	+8.0%	+4.0%
2016 to date	+27.3%	+6.4%
1 year	+6.8%	-12.1%
3 years annualised	+4.5%	-1.6%
5 years annualised	+1.9%	-3.8%
Since inception**	+641.0%	+263.5%
Since inception annualised**	+13.8%	+8.7%

*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	8.7	+10.3%	+13.8%
Buenaventura	7.8	+24.9%	+24.9%
SK Telecom	7.1	+0.4%	+0.4%
Lukoil	6.4	+9.2%	+9.2%
Embraer	6.4	+4.4%	+4.4%

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

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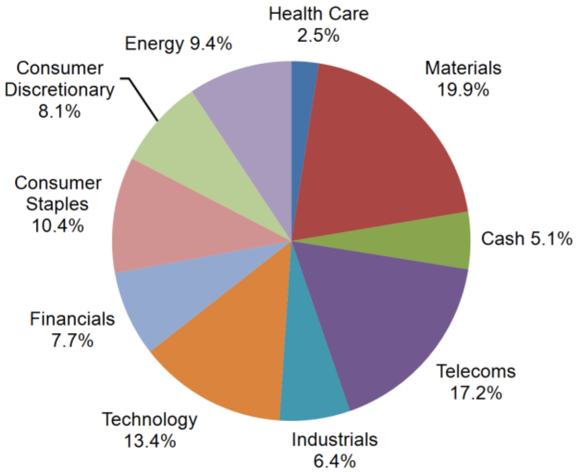
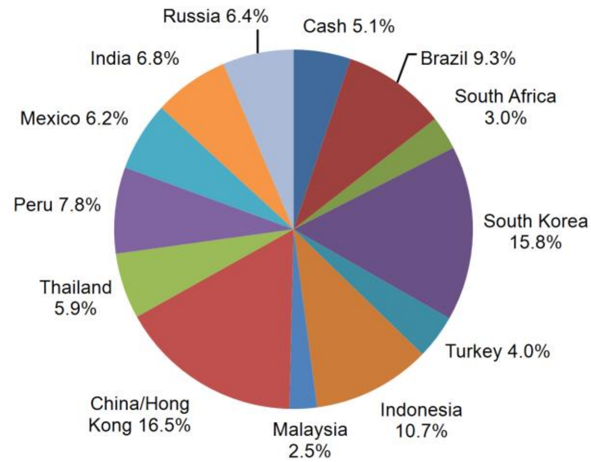
Sector and country breakdown as at 30th June 2016





Source: Oldfield Partners.

Commentary

The portfolio performed strongly in the month, and all but three stocks (**Top Glove**, **Embraer**, and **SK Telecom**) have outperformed the index year to date, with **Buenaventura** (Peruvian miner) being the strongest performer. The 'Brexit' crisis had little impact on the portfolio, which outperformed both on the crisis days and the subsequent rebound.

We are always on the lookout for broken business models and industry change, and how that may impact the portfolio. Some might say that the rise in automation is the end of the emerging market outsourcing model or that events such as 'Brexit' will roll back the globalisation trend. We see some of our stocks impacted by such disruption in coming years, and must consider the implications. The stocks we see being most directly impacted are Yue Yuen, Infosys, and our oil stocks. **Yue Yuen** (Hong Kong listed athletic shoe manufacturer) recently saw both its largest customers, Nike and Adidas, set up automated production facilities in the US and Germany to make very high end shoes. Robots making shoes is a clear threat. However, in the end Nike and Adidas are brands, and are unlikely to want to take on the mass manufacturing end of the business. Even if robots become cheaper than the lowest cost people anywhere in emerging markets then it is likely that Yue Yuen will invest in robots, but still be the largest supplier to the big brands. Maybe one day we will all be 3D printing our footwear at home, but that seems a very long way off. **Infosys** (Indian IT services) was an early beneficiary of the outsourcing model, which has faded over time as the western IT services companies also invested in Indian locations to benefit from the high skill and lower cost wages. The new threat is automation. It is unclear at this point if automation is a threat or an opportunity for Indian IT services, as it will reduce pricing and substantially reduce headcount (and Infosys alone has 190,000 employees), but it is difficult to know if the company or the customer will take the benefit in a competitive industry. Infosys is a strong franchise, has moved into higher end consulting services

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early, and we feel it is riding the wave of change well to date. **Lukoil** (Russian oil producer) and **Petrobras** (Brazilian oil producer) face a longer term threat from the rise of the electric vehicle. Oil is primarily a transportation fuel. Electric vehicles are superior to the combustion engine in every way except range, and this disadvantage is fast being overcome as battery technology advances. For urban only use electric vehicles would already seem to be the sensible option with minimal additional infrastructure needed - every car parking space to have a charging point.

Not all change is threatening or bad news. Our consumer electronics, media, and telecom stocks have always faced continuous change from new technology. Many primary and manufacturing companies will reduce costs. The increase in wages in China over several years has pushed manufacturing back to places such as Mexico, which it had left a couple of decades prior. **Ternium** (Latin American steel producer) is benefitting from the substantial increase in automotive and appliance production in Mexico, which needs the high quality flat steel produced by Ternium. Change will bring winners and losers.

The laggards during the month by contribution were **Infosys** (Indian IT services) and **Top Glove** (Malaysian latex glove manufacturer). The top performers during the month by contribution were **Buenaventura** (Peruvian miner) and **Samsung Electronics** (Korean consumer electronics). In the second quarter the top performers were **Buenaventura** and **Thai Beverage**; and the bottom performers were **Embraer** and **Turkcell**.

Eros International (Indian Bollywood film producer) had solid year end results in the month and importantly was free cash flow positive as promised by the management team. The share price has responded strongly reaching levels last seen before the 'Eros Now' takeover rumours and the subsequent damaging short seller note. We remain buyers.

The valuation of emerging markets remains attractive with the index trading on a price to book ratio of 1.45, well below the historic longer term average, and the upside to the weighted average price targets of the portfolio is 40%. The portfolio has a cyclical skew favouring companies with strong balance sheets and good assets, and despite the low portfolio turnover (about 2%) year to date we see little need to make substantial changes to the portfolio at this time.

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