Oldfield Partners

Emerging Markets Investment Report
June 2018 Newsletter

Performance Summary

USD terms	Emerging Markets Equity Composite	Index*
June	-3.5%	-4.2%
2018 to date	-4.5%	-6.7%
1 year	+10.1%	+8.2%
3 years annualised	+10.2%	+5.6%
5 years annualised	+7.4%	+5.0%
Since inception**	+827.8%	+386.7%
Since inception annualised**	+13.6%	+9.5%

*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)**
Embraer	8.4%	+3.6%	+3.6%
Samsung Electronics	8.0%	-8.0%	-10.6%
Lukoil	7.9%	+2.5%	+2.5%
SK Telecom	6.9%	+2.2%	+2.2%
Infosys	6.9%	+9.2%	+9.2%

*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.

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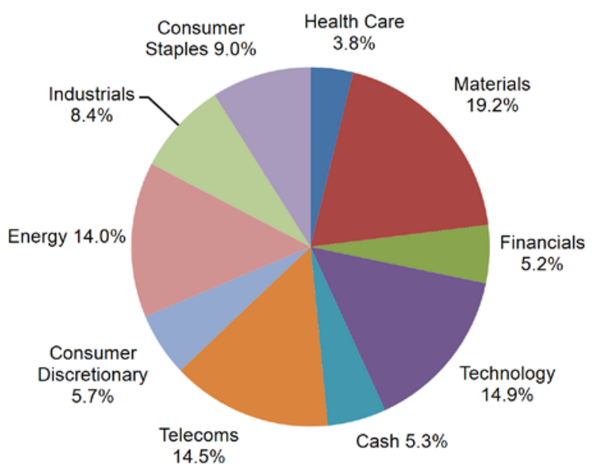
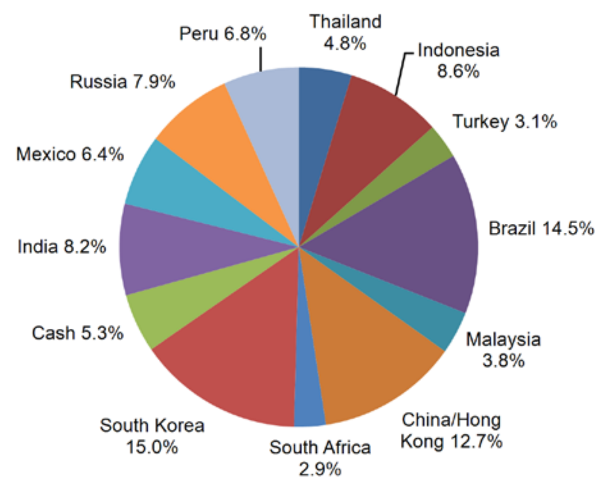
Sector and country breakdown as at 30th June 2018





Source: Oldfield Partners.

Commentary

Emerging market equities have been impacted by several political and macro-economic factors recently; with the brewing trade war and loss of international cooperation being potentially the most troublesome longer term. It has been a volatile year, with the MSCI Emerging Markets Index having been +10% in January to -10% year to date in June – and so heading into a bear market sized fall.

The bottom performers by contribution in the month were Lee & Man Paper and Samsung Electronics. **Lee & Man Paper** (Chinese containerboard) has been impacted by the poor sentiment towards China and the Chinese economy regarding the trade war with the US. We find that the vast majority of containerboard in China is used for the domestic consumer market, rather than the export market, so any slowdown should not be dramatic. The industry remains in a solid position due to limited capacity additions and the continuing closure of environmentally unfriendly capacity by the Chinese government. **Samsung Electronics** (Korean consumer electronics) has been under pressure as the latest high-end Galaxy smartphone has been a damp squib, as Samsung played it safe, and that more importantly investors continue to fret over the semiconductor cycle. It is clear that the smartphone market has reached maturity in its current guise, but we believe that Samsung can continue to make decent margins as the industry consolidates, and next year could see the release of the long awaited ‘foldable’ smartphone form factor to inspire high end consumers. We continue to believe the semiconductor cycle will be benign, and that any downturn will allow investors to adjust (upwards) their long term thinking towards the industry.

The top performers by contribution in the month were Infosys and Top Glove. **Infosys** (Indian IT services) is seeing a pickup in demand in its key end markets, is gaining traction in digital services, and the weaker local currency is a positive tailwind. **Top Glove** (Malaysian rubber gloves) has been a strong performer this year as the acquisition of Aspion has moved the company further into higher margin surgical gloves and the demand backdrop for rubber gloves remains solid.

The top performers by contribution for the second quarter were **Infosys** (Indian IT services), **Top Glove** (Malaysian rubber gloves), and **Ternium** (Latin American steel producer), and the bottom performers by contribution were **Petrobras** (Brazilian oil & gas), **Yue Yuen** (Hong Kong listed athletic shoes), and **Turkcell** (Turkish mobile telecom).

The valuation case for emerging market equities remains attractive, with the MSCI Emerging Markets Index trading comfortably below its longer term historic average valuation. The price to book ratio for the index is 1.6. The weighted average of the price targets in the portfolio is showing an attractive 46% upside.

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