

# Emerging Markets – Composite

## Patient, unconstrained, contrarian value investing

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Oldfield Partners

30 June 2022

### Monthly composite review

#### Composite particulars

Launch date	01 January 2001
Comp. assets	US\$136.6m
Structure	Composite
Base currency	USD
Benchmark	MSCI Emerging Markets

*“A concentrated portfolio concentrates the mind...”*

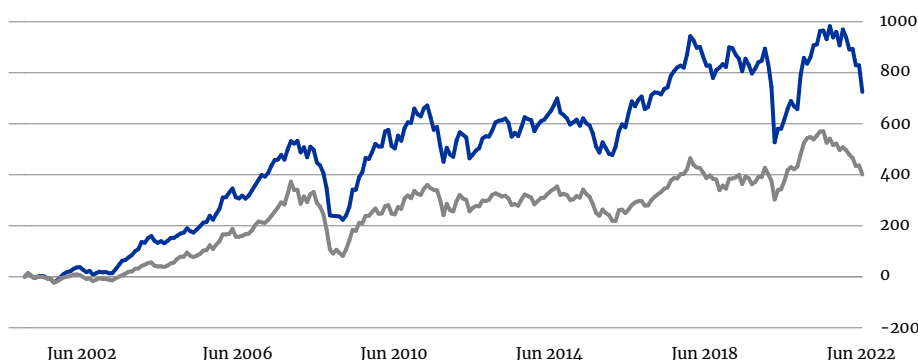
#### About Oldfield Partners

Oldfield Partners LLP is an owner-managed boutique fund management firm which manages equity portfolios for a global client base that includes endowments funds, pension funds, charities, family offices and individuals.

Oldfield Partners began operations in March, 2005 and is majority owned by the executive partners.

We are value investors with a distinctive approach: a limited number of holdings, long-only, no leverage, diversified, index-agnostic and suspicious of short-termism.

### Composite performance (%)



	1 month	YTD	1 year	Annualised	
				3 years	5 years
■ Emerging Markets Equity	-11.2	-22.9	-22.6	-4.8	-0.4
■ MSCI Emerging Markets	-6.6	-17.6	-25.3	+0.6	+2.2

#### Preceding five calendar years performance

	2021	2020	2019	2018	2017
Emerging Markets Equity	+11.6	-3.7	+7.8	-5.0	+26.8
MSCI Emerging Markets	-2.5	+18.3	+18.4	-14.6	+37.3

Performance is calculated net of all fees and expenses and on a total return basis, inclusive of all distributions to unit holders.

Source: Rawlinson & Hunter, Alta Advisers Ltd, Oldfield Partners.

**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 a guide to future performance.**

### Fund manager commentary

Emerging market equities remained under pressure in the month. The outlook is clouded by a heady mix of tightening US monetary policy, Chinese economic disruption, global inflationary pressures, and geopolitical issues. The upside potential for the portfolio is over 90% as measured by the weighted average of the company price targets. This level of upside potential has not been on offer since the ‘Great Financial Crisis’ of 2008/9.

The bottom performers by contribution for the month were Samsung Electronics, Ternium, and SK Hynix. The Korean semiconductor stocks (**Samsung Electronics** and **SK Hynix**) have been weak as consumer electronics sales outlook globally has dimmed considerably. The key server sales outlook remains strong, but these customers are savvy and have an inventory buffer on hand to aid their negotiating position. That said the current semiconductor cycle looks to be a shallow one and remaining at high levels of profitability (a far cry from the historic cycles for this sector), whilst valuations are nearing historic lows. **Ternium** (Latin American steel producer) has seen some weakness in steel prices recently, but these remain supported by global supply events notably from Russia and Ukraine. The economic outlook for the US and Mexico is key. Mexico is an increasingly attractive manufacturing location with its proximity to the key US market demand for flat steel.

The top performers by contribution for the month were Alibaba, Indofood, and LG Household & Healthcare (LGHH). **Alibaba** (Chinese e-commerce provider) had become unduly depressed by Chinese lockdowns, Chinese economic slowdown, and regulatory pressure. We see each of these issues beginning to pass and reflected in the valuation. The government looks keen to stabilise relationships with the private sector having asserted its primacy for all to see. We believe the long-term outlook for the Chinese consumer is positive and Alibaba remains well placed to benefit. **Indofood** (Indonesian snack food manufacturer) holds a 70% market share position in the Indonesian noodle market, which is effectively a duopoly. Noodles are a cheap staple fast food eaten ‘on the go’ and so busy consumers are less price sensitive and frequent flavour changes maintains consumer interest. In addition, Indofood owns the largest producer and importer of flour in the country that works on a cost-plus basis mitigating the increase in global wheat prices. **LG Household & Healthcare** (Korean consumer products manufacturer) is a new holding added in the month. LGHH has a solid portfolio of cosmetics (70% of operating profit), personal care (15%), and beverages (15%). The lockdowns across China due to outbreaks of Covid have provided an opportunity to buy into this quality name. The cosmetics division, with the flagship Whoo brand, has seen its sales to the key Chinese market disrupted by lockdowns and travel restrictions (allowing internet re-sellers greater market power in the years since Covid began). We see this as a temporary phenomenon that should revert to historic normality in time. We have 80% upside to the price target.

## Commentary - continued

The top performers for the second quarter were **Indofood** (Indonesian snack food manufacturer) and **Alibaba** (Chinese e-commerce provider); and the bottom performers were **Embraer** (Brazilian aircraft manufacturer), **Buenaventura** (Peruvian miner), and **SK Hynix** (Korean semiconductor manufacturer).

## Russian holdings

Please note that as of 3rd March 2022 the holding of Lukoil ADR will have a fair value price (FVP) of zero. This has been determined by our Valuation Committee. Lukoil ADR listed on the London Stock Exchange (LSE) was suspended from trading by the exchange on the morning 3rd March 2022. We will continue to monitor the situation daily and update accordingly.

## Composite analysis

## Top 10 holdings (%)

	Weighting	1 month total return (%)*	
		Local terms	USD
Thai Beverage	7.2	+10.7	-8.5
Samsung Electronics	7.2	-15.4	-18.6
Alibaba	6.8	+16.3	+16.3
Ternium	6.7	-17.9	-17.9
Telkom Indonesia	6.6	-5.1	-5.1
Indofood	6.5	+6.8	+4.1
SK Hynix	6.1	-15.7	-18.9
Embraer	6.0	-18.0	-18.0
Lee & Man Paper	5.3	-11.8	-11.8
Petrobras	5.1	-13.6	-13.6

\*Inclusive of portfolio activity.  
All data as at 30 June 2022.  
Source: Oldfield Partners.

## Sector breakdown (%)

Information Technology	23.7	
Consumer Staples	16.4	
Materials	16.3	
Communication Services	13.2	
Consumer Discretionary	10.4	
Industrials	6.0	
Energy	5.1	
Financials	4.7	
Cash	4.2	

## Country breakdown (%)

South Korea	24.1	
China/Hong Kong	18.3	
Indonesia	13.1	
Brazil	11.0	
Thailand	7.2	
Mexico	6.7	
Peru	4.3	
Taiwan	3.8	
India	3.1	
South Africa	2.1	
Turkey	1.9	
Cash	4.2	

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The Emerging Markets Equity Composite includes global emerging markets equity portfolios run with the following style: value focussed, concentrated, index agnostic and anti-short term. The benchmark for this composite is the MSCI Emerging Markets Index with net dividends reinvested. A complete listing and description of all composites is available on request. The composite was created in January 2001. Net of fees performance is presented net of actual investment management fees. Fees vary between accounts contained within the composite, in particular between segregated accounts and pooled vehicles. The highest fee Oldfield Partners LLP charges on any account within this composite is 1.25% per annum. Oldfield Partners LLP is authorised and regulated by the Financial Conduct Authority. Oldfield Partners LLP has approved and issued this communication for use by the Client. It should not be provided to third parties without the consent of Oldfield Partners LLP. Information contained in this communication must not be construed as giving investment advice within or outside the United Kingdom. This document is not a solicitation or offer of investment services. Any reference to stocks is only for illustrative purposes and opinions expressed herein may be changed without notice at any time. Oldfield Partners LLP does not warrant the accuracy, adequacy or completeness of the information and data contained herein and expressly disclaims liability for errors or omissions in this information and data. No warranty of any kind, implied, expressed or statutory, is given in conjunction with the information and data. © 2022 Partnership No. OC309959.