



Emerging Markets Investment Report

September 2017 Newsletter

Oldfield Partners

Performance Summary

USD terms	Emerging Markets Equity Composite	Index*
September	+1.6%	-0.4%
2017 to date	+20.2%	+27.8%
2016	+31.7%	+11.2%
1 year	+16.0%	+22.5%
3 years annualised	+7.4%	+4.9%
5 years annualised	+7.5%	+4.0%
Since inception**	+820.9%	+385.4%
Since inception annualised**	+14.2%	+9.9%

*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	8.6%	+10.7%	+8.8%
Embraer	8.3%	-0.2%	-0.2%
SK Telecom	7.6%	-2.8%	-2.8%
Lee & Man Paper	7.2%	+11.3%	+11.5%
Lukoil	6.9%	+5.3%	+5.3%

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

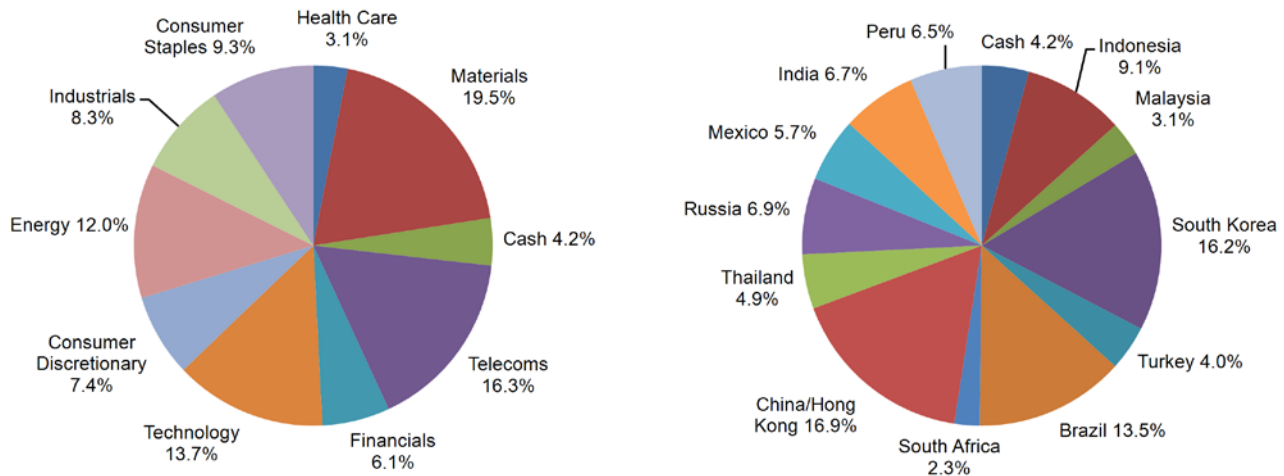
Oldfield Partners

11 Grosvenor Place, London, SW1X 7HH, United Kingdom.
 Telephone: +44 (0)20 7259 1000 Email: info@oldfieldpartners.com
 www.oldfieldpartners.com

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Sector and country breakdown as at 30th September 2017



Source: Oldfield Partners.

Commentary

The portfolio performed well in the month and the quarter, and is in line with the MSCI Emerging Markets Value Index year to date. However, it is lagging the benchmark MSCI Emerging Markets Index this year due to the strong performance of growth stocks, and in particular a handful of technology stocks on demanding valuations. The turnover of the portfolio has remained low this year, and with the solid performance of the portfolio over the last couple of years, it is comforting to see that the weighted average of the price targets in the portfolio shows an attractive 39% upside.

The bottom performers by contribution in the month were Buenaventura, JSE, and SK Telecom. **Buenaventura** (Peruvian miner) suffered from weaker gold and copper prices in the month. The stock trades on a price to book ratio of 1.2. **JSE** (South African stock exchange) is trading at the bottom end of its historic valuation range and we have added to it recently. The stock trades on a price earnings ratio of 12. **SK Telecom** (Korean mobile telecom provider) has remained weak on a negative tariff ruling from the regulator and concern that the government may push for more. Tariff discounts were increased from 20% to 25%. The stock trades on a price to book ratio of 1.2.

The top performers by contribution for the month were Lee & Man Paper, Samsung Electronics, and Eros International. **Lee & Man Paper** (Chinese containerboard manufacturer) has seen increased enforcement of environmental protection policies lead to consolidation in the industry and increased pricing power for the larger players. Despite the buoyant cycle there is limited new supply planned by the industry. The stock trades on a prospective price earnings ratio of 10. **Samsung Electronics** (Korean consumer electronics) continues to execute well in its main divisions of semiconductors, mobile handsets, and display; and it is the global leader in each of them. A rock solid balance sheet (net cash) and strong free cash flow generation should allow the company to continue its shareholder return policy for the coming years. The stock trades on a prospective price earnings ratio of 9. **Eros**

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International (Indian Bollywood films) saw its share price recover fully after an opportunistic short seller attack in late July. There was nothing new, and management had already addressed the issues, so we were happy to invest through the volatility. The surprise demonetisation episode in India has caused a difficult year for the company but its impact is now passing. The growth of the Indian middle class and its increasing consumption of media is a long term positive for Eros and its library of content. The stock trades on a price to book ratio of 1.2.

The top performers by contribution for the quarter were **Lee & Man Paper** (Chinese containerboard manufacturer), **Embraer** (Brazilian regional jet manufacturer), and **Petrobras** (Brazilian oil producer). The bottom performers by contribution for the quarter were **SK Telecom** (Korean mobile telecom provider), **Indofood** (Indonesian snack foods), and **Infosys** (Indian IT services).

Total assets for the emerging markets strategy are now over US\$900m. Once the strategy reaches capacity at US\$1billion we will not accept additional capital, as was the case when we reached that level back in 2014. We are currently in the latter stages of due diligence with several large investors, so if you are interested in investing or adding to an existing holding, please contact us.

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