

Emerging Markets – Composite

Patient, unconstrained, contrarian value investing

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Oldfield Partners

30 September 2022

Monthly composite review

Composite particulars

Launch date	01 January 2001
Comp. assets	US\$120.1m
Structure	Composite
Base currency	USD
Benchmark	MSCI Emerging Markets

“A concentrated portfolio concentrates the mind...”

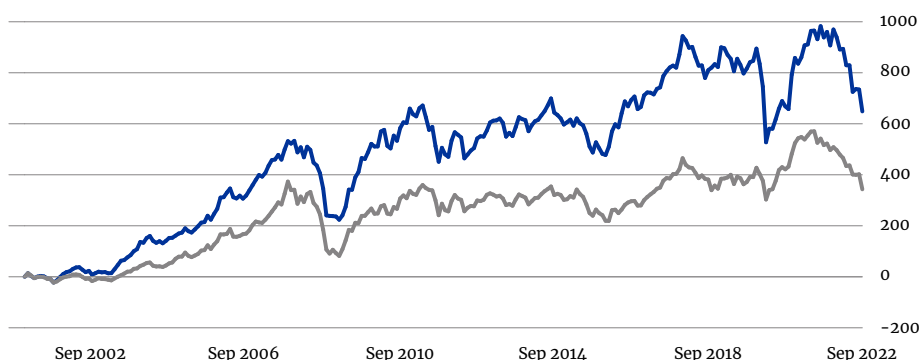
About Oldfield Partners

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	-10.3	-30.0	-27.9	-6.5	-4.1
■ MSCI Emerging Markets	-11.7	-27.2	-28.1	-2.1	-1.8

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

Equity markets around the world had a very tough month and third quarter. Investors are contending with tightening liquidity from more restrictive monetary policy in the US and Europe, a strong US dollar, and the US, European, and Chinese economies weakening together. Fragmentation has replaced globalisation. Inflation globally remains stubborn, and it looks like early days in the fight by central banks. Valuation is a bright spot, and although valuation alone rarely turns markets, it does help to indicate turning points. This has already been a deep and lengthy bear market for emerging market equities. The upside potential for the portfolio is near 100% as measured by the weighted average of the company price targets.

The bottom performers by contribution in the month were Embraer and the Korean semiconductor stocks – Samsung Electronics and SK Hynix. **Embraer** (Brazilian aircraft manufacturer) is in a cyclical sector, but it is in a strong position within its industry. It is the sole remaining provider of regional jets into the key US market. Its order backlog continues to grow, representing over three years of revenue. In addition, Embraer owns the majority stake in EVE, a US listed short-range electric flight vehicle, that trades at a premium to the market capitalisation of Embraer – this offers the traditional regional jet, business jet, and defence businesses for free. The Korean semiconductor stocks – **Samsung Electronics** and **SK Hynix** – reacted to the weakening of memory chip demand in the smartphone and PC sectors spreading to the data centre providers. The DRAM sector, that dominates earnings for both businesses, is consolidated amongst three major producers globally. The weakness of demand coupled with existing inventories at producers and key customers have in the near-term overcome the benefits of supply discipline and industry concentration but will lead to industry cuts in capital expenditure helping to seed the next recovery. This latest cyclical low for the industry is likely to be at solid levels of profitability, in stark contrast to its historical reputation. We cannot predict the timing of the cyclical turn for sure, but both stocks are trading near valuation trough levels.

The top performers by contribution in the month were Buenaventura and Infosys. **Buenaventura** (Peruvian miner) has been reflecting the volatile political background in Peru since the Presidential elections last year and worries about its impact on the mining industry. The recent appointment of a new Finance Minister, Kurt Burneo, has been taken positively as he understands and promotes the importance of the mining industry in Peru. Disputes with local communities can have an impact on mine production, and Buenaventura as a local company has a good track record here. Buenaventura owns a 20% stake in a copper mine, Cerro Verde, that equals its entire market capitalisation. **Infosys** (Indian IT services provider) is confident of delivering its year-end guidance despite the growing economic challenges in the US and Europe. IT projects are often multi-year, improve competitiveness, and can be cost takeout in nature, all of which means they are less likely to be cancelled. Margins will get tougher to deliver as wage and travel costs are firming.

Commentary - continued

We see Infosys as well placed to benefit from the long-term demand trend towards corporate digitalisation and outsourcing of IT services.

The top performers for the third quarter were **Petrobras** (Brazilian oil producer) and **Telkom Indonesia** (Indonesian telecom provider); and the bottom performers were **Alibaba** (Chinese e-commerce provider), **Ternium** (Latin American steel producer), and **Lee & Man Paper** (Chinese packaging materials).

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
Telkom Indonesia	7.8	-4.1	-4.1
Thai Beverage	7.2	-7.0	-9.5
Samsung Electronics	6.6	-11.1	-16.9
Embraer	6.4	-19.3	-19.3
Indofood	6.0	-3.2	-5.7
Petrobras	5.8	-9.3	-9.3
Ternium	5.6	-11.1	-11.1
SK Hynix	5.6	-12.7	-18.5
Alibaba	5.2	-17.3	-17.3
Buenaventura	4.9	+26.5	+26.5

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

Sector breakdown (%)

Information Technology	22.6	
Consumer Staples	15.7	
Materials	14.8	
Communication Services	14.6	
Consumer Discretionary	9.2	
Industrials	6.4	
Energy	5.8	
Financials	4.4	
Cash	6.5	

Country breakdown (%)

South Korea	22.3	
China/Hong Kong	15.8	
Indonesia	13.8	
Brazil	12.3	
Thailand	7.2	
Mexico	5.6	
Peru	4.9	
Taiwan	4.1	
India	3.2	
Turkey	2.3	
South Africa	2.1	
Cash	6.5	

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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.