Oldfield Partners

Emerging Markets - Composite

Patient, unconstrained, contrarian value investing

Quarterly Newsletter | Q3 2023 - 30 September 2023

Composite particulars

Launch date	01 January 2001
Comp. assets	US$116.9m
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.

All data as at 30 September 2023.
Source: Oldfield Partners.

Composite performance (%)

					Annualised		
	1 month	QTD	YTD	1 year	3 years	5 years	Launch
Fund	-3.1	-1.3	+6.9	+20.8	+5.6	-0.1	+10.2
MSCI Emerging Markets	-2.6	-2.9	+1.8	+11.7	-1.7	+0.6	+7.3

Preceding five calendar years performance	2022	2021	2020	2019	2018
Fund	-20.9	+11.6	-3.7	+7.8	-5.0
MSCI Emerging Markets	-20.1	-2.5	+18.3	+18.4	-14.6

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.

Portfolio breakdown

Top 10 holdings (%)

	Weight	MTD*	QTD*
Samsung Electronics	8.0	+0.5	-7.1
Petrobras	7.6	+6.0	+13.8
Embraer	7.3	-12.3	-11.3
Ternium	6.2	-4.5	+0.6
Alibaba	6.1	-4.9	+5.5
Thai Beverage	6.1	-0.1	-1.9
SK Square	5.4	-7.5	-6.3
Infosys	5.4	-1.5	+6.2
Indofood	5.4	-8.2	-10.0
SK Telecom	5.3	+6.4	+10.5

*Total return in USD, inclusive of portfolio activity.

Country breakdown (%)

South Korea	24.9
China/Hong Kong	17.9
Brazil	15.0
Indonesia	9.5
Mexico	8.6
Thailand	6.1
India	5.4
Peru	5.2
Taiwan	4.8
Cash	2.8

Sector breakdown (%)

Information Technology	21.4
Materials	17.1
Consumer Staples	16.8
Industrials	12.7
Communication Services	12.2
Consumer Discretionary	9.3
Energy	7.6
Cash	2.8

T: 020 7259 1000 E: info@oldfieldpartners.com www.oldfieldpartners.com

Fund manager commentary

Backdrop

The third quarter of 2023 was characterised primarily by rising investor fears over a troubled China. While policy makers in western markets continued to do battle with inflation, weakened economic activity and a frail property market meant that China dropped into deflation for July, before a meagre 0.1% rise in inflation for August – the September figure is yet to be published. Encouragingly, there do appear to be some green shoots however, with the PMI (purchases managers index) expanding for the first time in 6 months in September, and some evidence of stabilisation in the property market. It is however too early to call this a trend.

While within China there remains considerable long-term potential, concerns around the geopolitics and pockets of excess debt make the market a true dichotomy of return and risk. For value investors, there are compelling bottom-up opportunities, even when reflecting a high degree of country risk in the numbers. It is however a market to be highly selective within, as the fortunes of corporate China will almost certainly disperse now that a 'rising tide' no longer 'lifts all boats'.

Beyond China, the regional backdrop for corporates remains more buoyant, and indeed the World Bank at the end of the quarter upgraded the 2023 forecast for South Asia from 5.6% to 5.8%. In Latin America, conversations with corporates and headline data both suggest that activity here remains robust, with a relatively controlled level of inflation in key markets Brazil and Mexico. What continues to feed much of equity and debt investor anxiety however is the political backdrop, both domestic and international (US election cycle).

Performance

EM market activity over the third quarter weakened - the MSCI EM index returned -2.9%, MSCI EM value index -0.8%, and the composite -1.3%. Beyond the headline figures, Latin America performed behind Emerging Asia, and there was a broad evidence of a market reversion - what had otherwise worked in the first two quarters, lagged in the third (and visa-versa).

Key contributors to the funds total return were Petrobras, Buenaventura and First Pacific; key detractors to fund performance were Embraer, Indofood and Telkom Indonesia. Petrobras, a Brazilian oil and gas producer, enjoyed positive performance due primarily to the rally in the oil price. It remains the case that the firm is one of the most attractively valued global oil major by most key measures – most notably, its total cash return yield. Operationally, the firm couples a low-lifting cost protecting on the downside, with ongoing exploration of the Brazilian pre-salt fields providing opportunity for growth.

In the instance of Buenaventura, a Peruvian mining company, the firm continues to benefit from a buoyant gold/silver/copper price, and recovering production. Peru has had a tumultuous decade, churning through four presidents, each from a different party. This has proven problematic for a business model that relies on government permits for new mine exploration. We recently spoke with management however, and encouragingly the state has put in place a streamlined procedure that avoids an otherwise myriad of multi-departmental processes.

The weakest fund contribution was from Embraer, a Brazilian domiciled aircraft manufacturer. This was partly a pullback from a period of strong share performance earlier in the year. Fundamentally, there still remains a very strong valuation case to continue holding the stock, be it compared to its own historic valuation level or that of peers. Furthermore, there has been evidence of ongoing incremental improvement in its outlook during the recent months, with an uptick in new order wins. We had multiple conversations with management over the quarter, and also engaged with an NGO involved in policy-campaigns for sustainable aviation, to further our understanding on how the economics of the future are affected as the aviation industry hits a period of energy transition.

The other two weak performers – Indonesian consumer food company Indofood, and Indonesian telecom provider Telkom Indonesia – were behind for the quarter, after a strong start to the year. Telkom Indonesia weakened namely due to a surprise surge in operating expenses in 2Q23. Management however have since guided that operating expenses were frontloaded, and margins should improve into the second half of the year. For Indofood, 2Q23 headline growth had been less than expected, although management are confident in the firm's second half prospects. Both Indofood and Telkom Indonesia are robust businesses that have generated earnings per share growth over time, and remain at compelling valuation levels.

Activity

During the third quarter, the fund initiated two new positions – Autohome and Orbia. This was part funded from the exit of JSE, the South African stock exchange, and Turkcell, a Turkish mobile telecom operator. In both cases, the level of political and country risk had heightened to a level that made the risk/return profile of these holdings materially less favourable.

New addition Autohome is the leading online auto platform in China. The firm has generated strong growth over time, benefitting from the shift online in automotive media spend, and scale that comes with the network effect of a platform model. As the market matures, the company is no longer a growth business, it does however remain highly profitable and very cash flow generative. While we are cognisant of risk in China, cushioning the downside is a net cash position equivalent to almost 90% of the market cap and an already heavily depressed 12 times earning multiple. There is then scope to the upside in the event that China's current stimulus programs feed into the real economy (including auto spend), and/or the firm continues to buy back shares.

Orbia is a Mexico based multinational firm namely operating along the PVC supply-chain, but also has the rights to the world's largest fluorine mine. The firm's share price has recently been weak due to normalisation in the PVC price after a COVID 'peak'. Longer-term however the case for structural growth in demand remains, moreover supply is tight and new investment limited. In terms of downside protection, the firm has consistently been free cash flow profitable since 2005, and the 2023 dividend yield of 6% provides a good degree of valuation support. Additionally, while the firm may be domiciled in an emerging market, the majority of end-consumption is in developed markets. The upside is if there is a normalisation in key valuation metrics, stabilisation in PVC pricing, and/or M&A.

Russian holdings

Please note that on 3rd March 2022 the Fund's investment in Lukoil ADR listed on the London Stock Exchange (LSE) was suspended from trading. Our Valuation Committee considered it was in the Fund's best interests that the holding of Lukoil ADR be fair value priced (FVP) at zero. In June 2022, we elected for the holding to be converted into local shares (Lukoil PJSC).

Given the current international sanctions on Russian securities and cash balances, we believe that if lifted and the Fund was able to access the local market, the holding in Lukoil PJSC (with a current FVP of zero) would represent 11% of the Fund and cash dividend of 1.7%. On 22nd August 2023 a Reuters article suggested that Lukoil was planning to repurchase 25% of its shares from foreign shareholders. The repurchase price would be at least a 50% discount from the quoted price. We continue to monitor the situation closely.

Portfolio Management

We are excited to announce that Charles Sunnucks joined the Global Emerging Market and Global Emerging Market ex-China strategies as an Associate Portfolio Manager as of October 1st 2023. In this role, Charles will begin to participate in the portfolio construction and risk management aspects for these strategies, while Tom Taylor remains the Portfolio Manager. This change is in recognition of the strong, diverse pipeline of talent and our desire to give additional responsibility which we firmly believe will benefit our clients and support our long-term succession planning.

Charles joined OP at the start of 2023, prior to which he was involved in cross-border M&A transactions at investment bank NovitasFTCL. He previously worked at Jupiter Asset Management where he co-managed the Jupiter Emerging & Frontier Income Trust. Charles speaks fluent Mandarin and is a CFA/CAIA Charterholder.

Newsletter changes

We are moving to Quarterly Newsletters. These will now encompass a fuller write up of what has been happening in the portfolio over the previous quarter. In between these Quarterlies, we will produce a monthly fact sheet. These will not have a written piece but will have comprehensive facts on the fund. Why have we done this? We have a longer-term outlook, have low turnover and things don't change an enormous amount month to month. We felt that readers would learn a lot more from a fuller review of portfolio movements on a quarterly basis.

If you have any questions, please contact Ed Troughton or James Lindsay.

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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