



Emerging Markets Investment Report

November 2015 Newsletter

Oldfield Partners

Performance Summary

USD terms	Emerging Markets Equity Composite	Index*
November	-3.7%	-3.9%
2015 to date	-13.3%	-13.0%
1 year	-16.2%	-17.0%
3 years annualised	-2.4%	-4.6%
5 years annualised	-3.0%	-3.0%
Since inception**	+504.3%	+249.4%
Since inception annualised**	+12.8%	+8.7%

*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	9.1	+6.5%	+6.5%
Samsung Electronics	9.1	-6.4%	-7.8%
SK Telecom	7.9	-5.5%	-5.5%
Telkom Indonesia	6.9	+6.9%	+6.9%
Lukoil	6.8	+6.0%	+6.0%

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

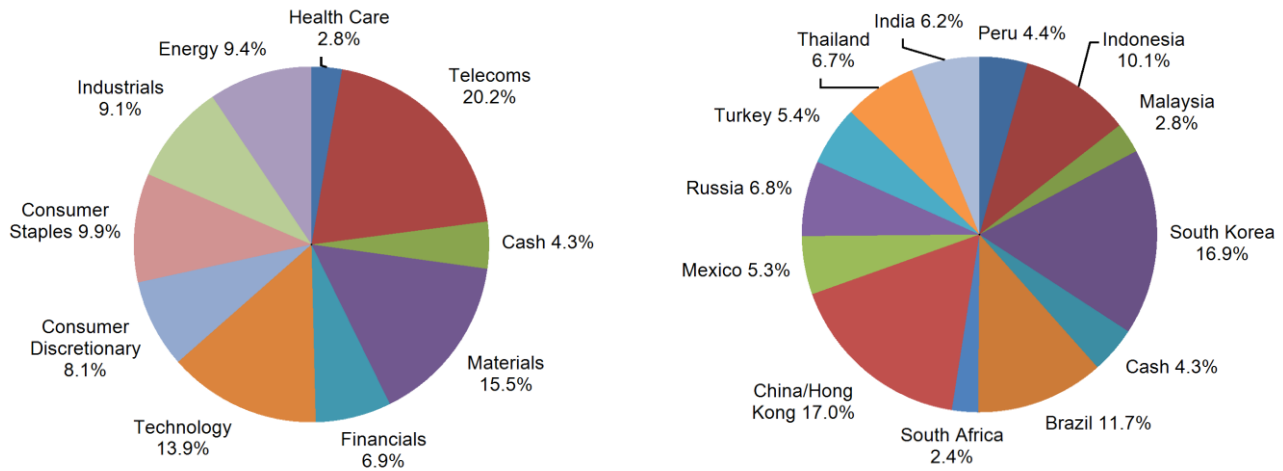
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Sector and country breakdown as at 30th November 2015



Source: Oldfield Partners.

Commentary

Sentiment towards emerging markets remains in the doldrums, with outflows for the year reaching approximately \$48 billion. The slowdown in the Chinese economy, the potential US interest rate increase, and weakness in emerging market currencies are well known to investors. The Chinese leadership has very publicly committed to 6.5% economic growth per annum to 2020, and despite the vagaries of the official statistics this is still a decent growth rate at anywhere close to this level. The US rate cycle is nearer and has the potential to be a short one; maybe more of a token gesture given the lacklustre economic growth outlook. Investor pessimism could moderate or reverse from here as the most negative scenarios become priced into the low valuation for the asset class. The upside potential from the weighted average of our price targets in the portfolio is 70%.

There are always many problems faced by emerging markets, but perhaps two of the most pressing are the overcapacity issue in many Chinese industries, and so for their suppliers of commodities, and the growing level of consumer and corporate debt, especially if ultimately financed in US dollars. The portfolio has little exposure to either of these issues. Our mainland Chinese exposure is limited to **Lee & Man Paper** (Chinese containerboard producer) and less so to **Yue Yuen** (Hong Kong athletic shoe manufacturer), both in industries where capacity in China has already adjusted successfully. Shoe and garment manufacturing has been leaving China for some years due to the rising wage costs versus other Asian countries, and Yue Yuen has only 25% of its capacity remaining in China. Lee & Man Paper has seen the Chinese government successfully remove meaningful amounts of capacity from the containerboard industry, most recently in Guangdong province using financial incentives for the smaller less efficient players to shut down. Our exposure to oil and gold has been impacted by a slowing China, but less so, and much less directly, than for other commodities. The portfolio has no exposure to emerging market banks, which would be the most impacted sector by any debt problems

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in the asset class. The majority of our companies have strong balance sheets, and this is reflected at the portfolio level with an 8% net debt to equity ratio.

Among the poor performers during the month by contribution were Buenaventura and Samsung Electronics. **Buenaventura** (Peruvian miner) has no control over the gold price but has been successfully reducing costs. Buenaventura has little debt and a solid lower cost resource base. Sentiment to gold equities remains very weak. The gold price had held up relatively well against other commodities, but fell around 10% over the last month. **Samsung Electronics** (Korean consumer electronics) had seen its share price rise with the release of its long awaited shareholder return policy, and saw some profit taking. Investors remain cautious on the semiconductor division and mobile handset division, despite Samsung again showing in its third quarter results that its positioning in both allow decent margins to be maintained.

The top performers during the month by contribution were Embraer and Telkom Indonesia. **Embraer** (Brazilian regional jet manufacturer) continues to benefit from healthy end markets boosting its order book, having the right product, financial troubles for its major competitor, and a weak local currency to help restrain costs. **Telkom Indonesia** (leading Indonesia telecom provider) continues to execute well and benefits from having the best network in Indonesia. The competitive environment remains stable, as the three main players are all increasing prices and benefiting from the growth of data on their 3G networks (and with minimal capital expenditure needed to upgrade to 4G).

During the month we sold **Chaoda Modern** (Chinese agricultural producer). The lifting of the multi-year share price suspension by the Hong Kong authorities and production of audited accounts could have re-energised management over the summer to outline a strategic path and engage with shareholders. This was not to be the case. The business model relied on its early mover advantage in modernising Chinese agricultural practises, and to an extent on cheap Chinese labour, and time has eroded both of these.

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