



# Emerging Markets Investment Report

## November 2016 Newsletter

Oldfield Partners

### Performance Summary

USD terms	Emerging Markets Equity Composite	Index*
November	-6.1%	-4.6%
2016 to date	+30.2%	+10.9%
1 year	+25.4%	+8.5%
3 years annualised	+1.8%	-3.1%
5 years annualised	+5.5%	+1.0%
Since inception**	+657.4%	+279.0%
Since inception annualised**	+13.6%	+8.7%

\*MSCI Emerging Markets (Net Dividends Reinvested). \*\*Inception 1<sup>st</sup> 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	9.4%	+6.5%	+3.6%
SK Telecom	8.6%	-3.0%	-3.0%
Lukoil	7.2%	+0.5%	+0.5%
Buenaventura	7.0%	-15.7%	-15.7%
Embraer	6.9%	-8.4%	-8.4%

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

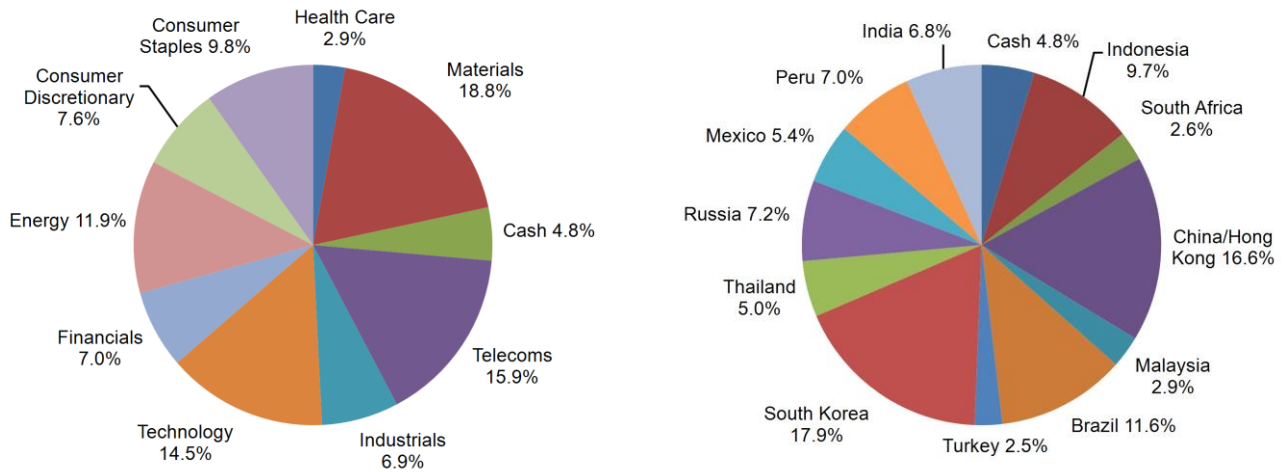
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### Sector and country breakdown as at 30<sup>th</sup> November 2016



Source: Oldfield Partners.

### Commentary

As emerging market equity corrections go this is a mild one. With the US election over we can see how the dust is settling. The election only had two possible outcomes, so the market should not be too surprised by the result. The two stocks we were most concerned about, Ternium and Infosys, have performed much the same as the index since the election. President-elect Trump has toned down the rhetoric and more controversial policies may be re-thought. We hold both stocks at 5% weights in the portfolio. Emerging market equities in general have suffered, especially from a more pro-US investment bias by investors, the possibility of a globalisation-lite agenda, and from the strength of the US dollar, as investors expect the US rate cycle to kick in.

The laggards during the month by contribution were Buenaventura and Petrobras. **Buenaventura** (Peruvian miner) is impacted by the 8% fall in the gold price in dollar terms since the US election. However, it also has a substantial exposure to the copper price, which has increased 15% in dollar terms in the same period. It trades on a price to book ratio of 0.9. **Petrobras** (Brazilian oil & gas) has seen a run of good news over the year, including capex reductions, asset sales, free cash flow generation, higher oil prices, a sustained premium to international oil prices, and a more transparent pricing mechanism. However, much of the debt is in US dollars. It trades on a price to book ratio of 0.9.

The top performers by contribution were Samsung Electronics, Ternium, and Lee & Man Paper. **Samsung Electronics** (Korean consumer electronics) has unveiled its updated shareholder return plan with increased dividends, more share buy backs, and a higher pay out from free cash flow of 50%. It trades on a price to earnings multiple of 10, a price to book ratio of 1.3, and has an exceptionally strong balance sheet. **Ternium** (Latin American steel producer) is in limbo until Trump

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clarifies his policies towards Mexico. On the one hand it benefits from a better US steel cycle, but on the other hand, only if the NAFTA free trade agreement stands. It trades on a price to earnings multiple of 10, a price to book ratio of 1.2, and has a solid balance sheet. **Lee & Man Paper** (Chinese containerboard manufacturer) has increased prices again in the month, following price increases even in the seasonally quiet months, and efforts by provincial governments in China to close smaller industry players continue. It trades on a price to earnings multiple of 10 and a price to book ratio of 1.5.

The upside potential for the portfolio from the weighted average of the price targets is a healthy 46%.

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