Emerging Markets - Composite

Patient, unconstrained, contrarian value investing

Oldfield Partners

30 November 2022

Monthly composite review

Composite particulars

Launch date	01 January 2001
Comp. assets	US$135.0m
Structure	Composite
Base currency	USD
Benchmark	MSCI Emerging Markets

"A concentrated portfolio concentrates the mind..."

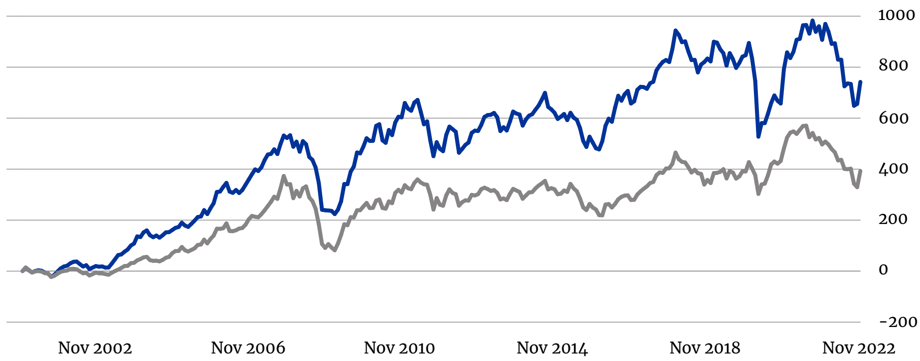
About Oldfield Partners

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	Annualised 5 years
■ Emerging Markets Equity	+11.4	-21.3	-16.4	-3.8	-1.8
■ MSCI Emerging Markets	+14.8	-19.0	-17.4	+0.1	-0.4

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

The backdrop for emerging market equities has been a difficult one this year. The slowing of all the major economies together – notably the US, Europe, and China – with a strong US dollar, stubborn inflationary pressures, tighter US monetary policy, China's Covid-Zero policy, and geopolitical fragmentation and discord. A number of these factors are beginning to stabilise or reverse into year-end, and emerging market equity valuations already reflect the difficult backdrop. The upside potential for the portfolio is around 90% as measured by the weighted average of the company price targets in the portfolio. This potential upside has only been on offer when times are troubled, such as in the 2008/9 financial crisis and the 2020 Covid sell-off.

China was the key driver of performance with the remarkably strong bounce in Chinese equities during the month. Following the Chinese Communist Party Congress and sporadic outbreaks of social unrest, China has begun to soften its stance to Covid restrictions. A gradual return to normal economic life may be possible within 2023, but the road will surely be bumpy and uneven (as it was elsewhere in the world as Covid restrictions were eased). In addition, some support for the troubled property sector has been announced. These measures will boost the Chinese consumer that has pent-up demand following years of a Covid-Zero policy and the savings to back it.

The bottom performers by contribution in the month were Telkom Indonesia and Indofood. Indonesia has been a solid performer this year and both these stocks have defensive qualities. **Telkom Indonesia** (Indonesian telecom operator) is the market leader in an attractive telecoms market. The company has the leading network position across Indonesia and benefits from a benign regulatory environment. Management is looking to add shareholder value from its diverse range of telecom assets. Having previously monetised part of its mobile network tower business, it is considering the same for its datacentre business, and a merger of its market leading mobile and broadband businesses allowing it cost savings and cross selling benefits. The stock trades on a price earnings ratio of 15. **Indofood** (Indonesian snack foods) holds a 70% market share position in the Indonesian noodle market, which is effectively a duopoly. Noodles are a cheap staple fast food eaten 'on the go' and Indofood has an excellent track record of pricing power whilst maintaining consumer interest with new flavours and product launches. In addition, Indofood owns the largest producer and importer of flour and has the largest distribution network in the country. The stock trades on a price earnings ratio of 8 and a price to book ratio of 1.2.

The top performers by contribution in the month were Alibaba and Lee & Man Paper in China, and ASE Technology in Taiwan. Improved investor sentiment to China and the Chinese consumer are the common factor. **Alibaba** (Chinese e-commerce) has faced multiple weighty concerns this year - Chinese lockdowns, Chinese political worries, Chinese economic slowdown, and regulatory scrutiny. The valuation became distressed. We believe these issues are finally fading and the stock is a major beneficiary as consumer

Commentary - continued

sentiment improves in China. The stock trades on a price earnings ratio of 9 (excluding net cash) and a price to book ratio of 1.7. **Lee & Man Paper** (Chinese packaging materials) has been impacted by the Covid-Zero policy in China and weak consumer demand throughout the year. In addition, there have been cost pressures in energy and domestic recycled paper. More positively this has led to better supply discipline and a squeeze on the smaller companies in the industry. About 70% of the end demand for containerboard in China is to the domestic Chinese consumer and should benefit as consumer spending picks up. The stock trades on a price earnings ratio of 5 and a price to book ratio of 0.4. **ASE Technology** (Taiwanese semiconductor packaging & testing provider) is the world's largest semiconductor assembly and testing provider. Based in Taiwan it benefits from proximity to some of the world's largest semiconductor foundries. Advanced integrated chip packaging techniques play an increasingly important role in optimising systems of semiconductor performance. Although the near-term inventory and demand outlook for semiconductors is troubled the company should fare well with cost control and muted Chinese competition. The stock trades on a price earnings ratio of 8 and a price to book ratio of 1.6.

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. Since this time, the Composite has been unable to buy or sell Lukoil. Our Valuation Committee considered it was in the Composite'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). Had we not done so, the ADRs would have expired and would be liquidated for an unknown value on 31 December 2022.

We are aware that there is liquidity in the local shares for Russian residents. However, Lukoil PJSC may not be traded by foreign investors including the Composite. In addition, sanctions prevent the transfer of sale proceeds outside Russia.

At month end the local price was RUB 4,598. If local and international sanctions were lifted and the Composite was able to access the local market and remit sale proceeds, the security would represent a 10% position in the Composite.

We continue to price the local shares with a FVP of zero and will continue to monitor the situation closely.

Composite analysis

Top 10 holdings (%)

		1 month total return (%)*	
	Weighting	Local terms	USD
Samsung Electronics	7.6	+4.7	+13.4
Embraer ADR	7.1	+0.5	+0.5
Thai Beverage	7.1	+10.4	+14.1
Alibaba	5.9	+28.7	+29.4
Ternium ADR	5.8	+12.6	+12.6
Indofood	5.6	0.0	-0.3
SK Hynix	5.5	+2.8	+11.3
Petrobras ADR	5.3	+3.6	+3.6
Buenaventura ADR	5.3	+17.6	+17.6
SK Telecom	4.8	-0.3	+7.8

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

Sector breakdown (%)

Information Technology	25.0
Consumer Staples	16.6
Materials	15.8
Communication Services	11.8
Consumer Discretionary	9.4
Industrials	7.1
Energy	5.3
Financials	4.2
Cash	4.9

Country breakdown (%)

South Korea	25.0
China/Hong Kong	16.2
Brazil	12.4
Indonesia	10.1
Thailand	7.1
Mexico	5.8
Peru	5.3
Taiwan	4.6
India	4.1
Turkey	2.5
South Africa	2.1
Cash	4.9

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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.