

# OLDFIELD PARTNERS

## EMERGING MARKETS INVESTMENT REPORT

### JANUARY 2015

#### Performance Summary

USD terms	Emerging Markets Equity Composite	Index*
January	+1.3%	+0.6%
2015 to date	+1.3%	+0.6%
2014	-2.4%	-2.2%
1 year	+5.2%	+5.2%
3 years annualised	+3.6%	+0.6%
5 years annualised	+2.9%	+3.1%
Since inception**	+605.9%	+303.9%
Since inception annualised**	+14.9%	+10.4%

\*MSCI Emerging Markets (Net Dividends Reinvested). \*\*Estimate used for January 2015. \*\*\*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	8.2	+2.9%	+1.8%
SK Telecom	8.1	+6.5%	+6.5%
Embraer	7.6	-4.1%	-4.1%
Buenaventura	6.9	+19.5%	+19.5%
Infosys	6.9	+8.3%	+8.3%

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

Oldfield Partners

130 Buckingham Palace Road, London, SW1W 9SA.  
Telephone: +44 (0)20 7259 1000 Email: info@oldfieldpartners.com  
www.oldfieldpartners.com

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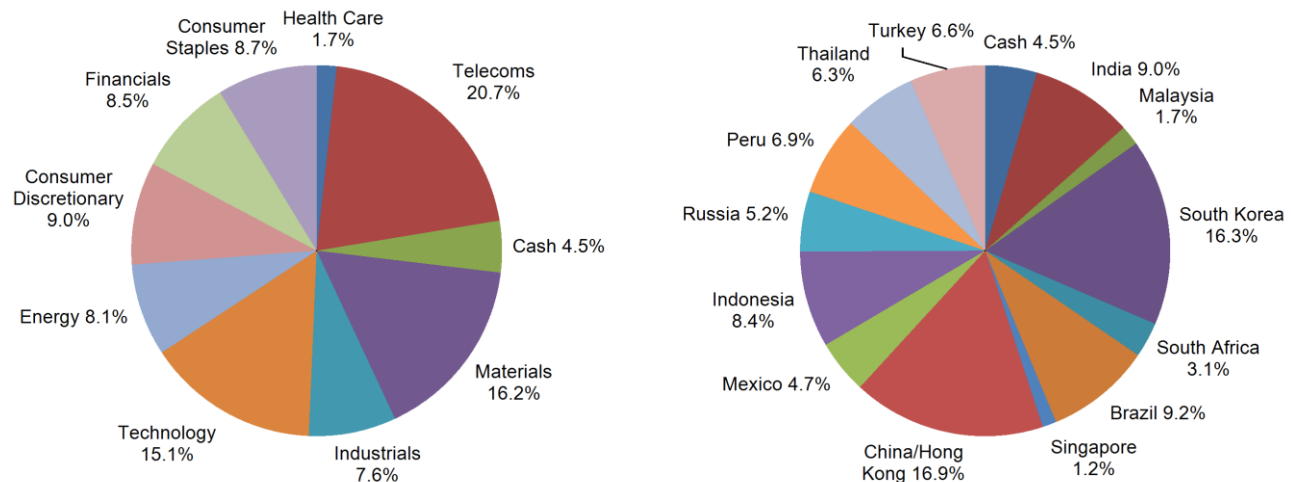
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#### Sector and country breakdown as at 31<sup>st</sup> January 2015



Source: Oldfield Partners.

#### Commentary

Over the last six months two of the most notable investment drivers have been the sharp fall in the oil price and the strength of the US dollar. The portfolio fared reasonably well, but it should have done better. A number of the top holdings benefit directly from the strength of the US dollar, such as **Embraer** and **Infosys**, and many others to a lesser extent. The consumer names benefit indirectly from the fall in global oil prices. However, our oil stocks, **Lukoil** and **Petrobras**, not only had the oil price to contend with, but were beset by their own problems. For Lukoil the fall in the oil price has been offset by the fall in the rouble, which is the majority of its cost base, leaving it operationally in a comfortable position, but the Ukrainian crisis sanctions on Russia have kept a dampener on Lukoil's share price. Petrobras continues to charge domestic fuel prices from before the oil price fall, now at a 60% premium to international parity, but the company became embroiled in a corruption scandal where its largest contractors had over-charged on projects and offered kick-backs to politicians. Defeat was snatched from the jaws of victory.

The polarisation of valuations between the defensive sectors and cyclical sectors has been an investment theme for many years now. The higher valuations attached to more certain income streams has been a winning formula in an uncertain world. Just because something becomes consensus does not make it wrong, but neither does it mean it will be correct forever. We have found opportunities to invest in defensive holdings, such as **Thai Beverage**, **KT&G**, and **Top Glove**, and these have been strong performers. The portfolio has the telecom sector as its largest sector weight (enjoying the global adoption of smartphones and increasing data usage). The portfolio has also favoured quality cyclicals

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Telephone: +44 (0)20 7259 1000 Email: info@oldfieldpartners.com  
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with decent balance sheets and/or good quality assets, such as **Embraer** and **Ternium**, and cyclicals still make the largest part of the portfolio.

Among the worst performers during the month by contribution were **Petrobras** (Brazilian oil & gas) and **Lee & Man Paper** (Hong Kong packaging materials). The top performers during the month by contribution were **Buenaventura** (Peruvian miner), **Infosys** (Indian IT services), and **SK Telecom** (Korean mobile operator). We initiated a new position in **Indofood** (Indonesian snack foods), which we know well and have held in the past. It trades on a forward price to earnings ratio of 16 and has solid double digit earnings growth in coming years.

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130 Buckingham Palace Road, London, SW1W 9SA.  
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[www.oldfieldpartners.com](http://www.oldfieldpartners.com)

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