

# Emerging Markets – Composite

## Patient, unconstrained, contrarian value investing

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Oldfield Partners

31 January 2023

### Monthly composite review

#### Composite particulars

Launch date	01 January 2001
Comp. assets	US\$148.3m
Structure	Composite
Base currency	USD
Benchmark	MSCI Emerging Markets

*“A concentrated portfolio concentrates the mind...”*

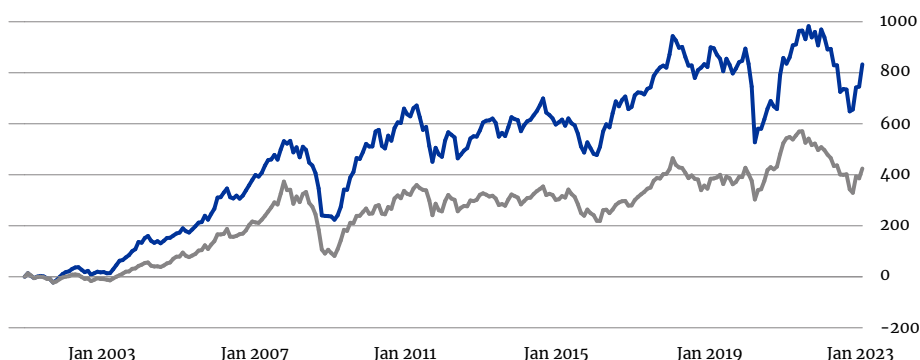
#### About Oldfield Partners

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	5 years
■ Fund	+10.3	+10.3	-10.2	-0.1	-2.2
■ MSCI Emerging Markets	+7.9	+7.9	-12.1	+1.4	-1.5

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.**

### Fund manager commentary

Equity markets rallied in January on improved investor sentiment following the end of the ‘Covid-Zero’ policy in China leading to stronger economic growth and some evidence that global inflationary pressures were subsiding allowing a favourable adjustment to the trajectory of US monetary policy. The US dollar continued to weaken. The Chinese equity market was particularly strong and, in general, the more defensive sectors lagged in the month. The upside potential for the portfolio is around 75% as measured by the weighted average of the company price targets in the portfolio. This level of potential upside has only been on offer when times are troubled.

The bottom performers by contribution in the month were Lee & Man Paper and SK Telecom. **Lee & Man Paper** (Chinese packaging materials) will benefit from the Chinese consumer demand recovery as inventory levels of packaging materials are reduced. The sector has had a tough time through the strict ‘Covid-Zero’ period and with input prices being strong thereafter, which has reduced valuations to trough levels. We believe this is early days for the recovery of this sector in China. **SK Telecom** (Korean mobile telecoms provider) remains in a solid position in Korea as 5G penetration steadily increases (+50% at year-end), regulatory policy is supportive, and capital expenditure is restrained. Management is focussing on the most profitable 5G customers rather than just headline market share. The dividend yield at around 7% is dependable.

The top performers by contribution in the month were Ternium, Alibaba, and Embraer. **Ternium** (Latin American steel producer) is well placed to benefit from the recovery in Mexican demand, as ‘near shoring’ boosts Mexican manufacturing. The strength of the US economy remains a question mark. Ternium is a low-cost producer in Mexico, which remains a net importer of steel, allowing ample growth potential for the company. **Alibaba** (Chinese e-commerce provider) was a strong performer following the end of the ‘Covid-Zero’ policy in China. Sentiment towards China had soured last year on fears over Taiwan, regulatory uncertainty, and the strict anti-Covid stance by the government. Alibaba is a prime beneficiary of the unleashing of the Chinese consumer given its 50% market share for the e-commerce market. **Embraer** (Brazilian aircraft manufacturer) has successfully added to its substantial regional jet order book into the New Year. Total order backlog amount has returned to the highest level since before Covid, boding well for the medium-term outlook. Embraer is in an enviable position being the sole remaining provider of regional jets into the key US market. Its electric flight vehicle, called EVE, continues to do well, and its market capitalisation almost equals that of Embraer (its majority owner). As this business develops and reaches certification, we hope to be able to assign more value to it.

#### Russian holdings

Please note that on 3rd March 2022 the Fund’s investment in Lukoil ADR listed on the London Stock

## Commentary - continued

Exchange (LSE) was suspended from trading. Since this time, the Fund has been unable to buy or sell Lukoil. 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). 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 Fund. In addition, sanctions prevent the transfer of sale proceeds outside Russia.

At month end the local price was RUB 3,959. If local and international sanctions were lifted and the Fund was able to access the local market and remit sale proceeds, the security would represent a 7% position in the Fund.

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 (%)











	Weighting	1 month total return (%)*	
		Local terms	USD
Embraer ADR	7.7	+17.9	+17.9
Samsung Electronics	7.4	+10.3	+12.4
Alibaba	7.3	+24.8	+24.2
Thai Beverage	7.3	+2.2	+4.1
Ternium ADR	6.5	+32.0	+32.0
Indofood	5.3	0.0	+3.2
SK Telecom	5.0	-1.8	0.0
Petrobras ADR	4.9	+11.4	+11.4
Infosys ADR	4.8	+4.4	+4.4
SK Square	4.8	+8.0	+10.1

\*Inclusive of portfolio activity.  
All data as at 31 January 2023.  
Source: Oldfield Partners.

## Sector breakdown (%)

Information Technology	24.2	
Consumer Staples	16.9	
Materials	15.9	
Consumer Discretionary	11.7	
Communication Services	11.4	
Industrials	7.7	
Energy	4.9	
Financials	4.2	
Cash	3.1	

## Country breakdown (%)

South Korea	24.2	
China/Hong Kong	18.5	
Brazil	12.6	
Indonesia	9.6	
Thailand	7.3	
Mexico	6.5	
India	4.8	
Peru	4.7	
Taiwan	4.4	
Turkey	2.2	
South Africa	2.1	
Cash	3.1	

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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. © 2023 Partnership No. OC309959.