

# OLDFIELD PARTNERS

## EMERGING MARKETS INVESTMENT REPORT

### MARCH 2014

#### Performance Summary as at 31<sup>st</sup> March 2014

USD terms	Emerging Markets Equity Composite	Index*
March**	+2.2%	+3.1%
2014 to date**	-0.6%	-0.4%
2013	+6.1%	-2.6%
1 year	-0.5%	-1.4%
3 years annualised	-2.3%	-2.9%
5 years annualised	+15.8%	+14.5%
Since inception***	+609.9%	+308.7%
Since inception annualised***	+15.9%	+11.2%

\*MSCI Emerging Markets (Net Dividends Reinvested).

\*\*Estimate used for March 2014.

\*\*\*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, Northern Trust, MSCI © and Bloomberg.

#### Performance of Five Largest Holdings\*

	Portfolio Weighting* (%)	Monthly Performance (local terms**)	Monthly Performance (USD terms**)
Samsung Electronics	7.9	-0.4%	+0.3%
Embraer	7.2	-0.9%	-0.9%
Petrobras	6.1	+19.0%	+19.0%
KT&G	5.9	+2.3%	+3.1%
Lukoil	5.9	+1.0%	+1.0%

\*As at end of period, using a representative portfolio.

\*\*Total return inclusive of dividends.

Source: Oldfield Partners and Bloomberg.

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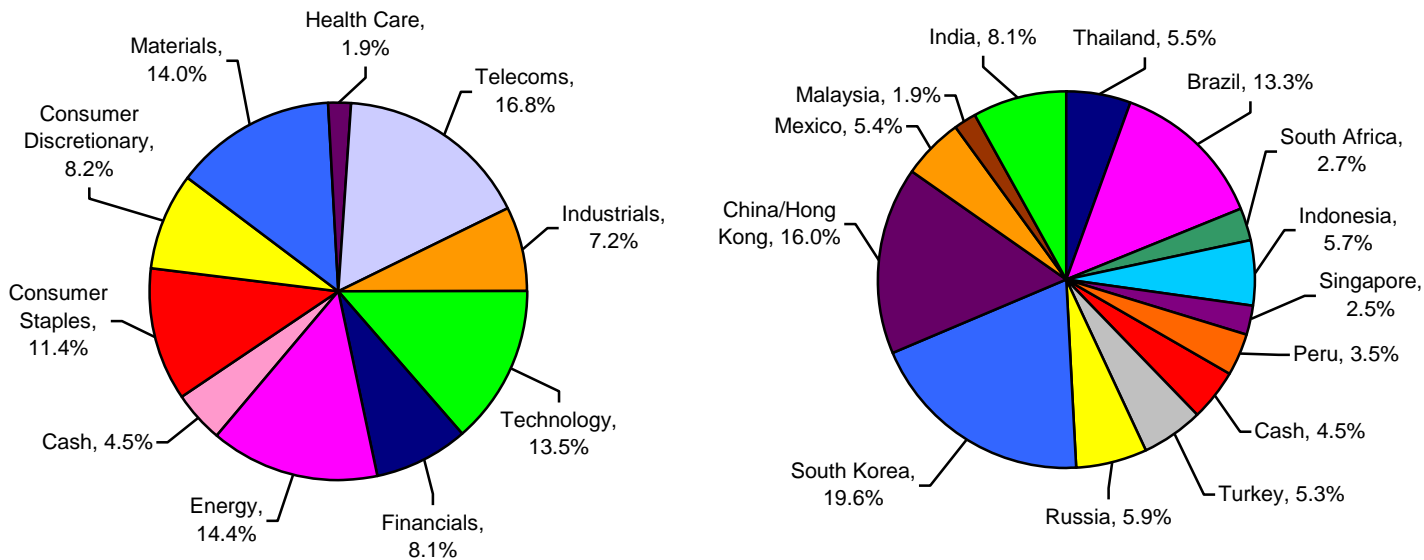
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#### Sector and country breakdown as at 31<sup>st</sup> March 2014



Source: Oldfield Partners. Representative Portfolio used.

#### Commentary

The backdrop to emerging markets is gloomy, but valuations are attractive. So far this year investors have withdrawn over \$40 billion from emerging market equities, which is on a par with withdrawals in 2008 and 2011, on concerns over an economic slowdown in China, numerous political events, and fears of the impact of US monetary policy. The valuation of the MSCI Emerging Markets index remains well below its longer term historic average, and this provides a support to equity markets.

The worst performers during the month by contribution were Infosys and Top Glove. **Infosys** (Indian IT services) has frustrated investors once again with poor guidance. It sees some troubling demand in its fourth quarter from certain industries, which may lead to a weaker recovery. Management's recent record at forecasting demand has not been sparkling, and investors may prefer to focus on the company's efforts to reduce costs, boost productivity, and return operating margin to industry leading levels. **Top Glove** (Malaysian latex gloves) had disappointing second quarter results. The latex price, its key cost, continues to be depressed due to growth in production from rubber producing countries. However, Top Glove suffered from automating its production lines, necessary due to rising labour costs, and a switch towards nitrile glove demand, in which Top Glove is expanding, but has a weaker position at 24% of the product mix. The long term demand outlook for rubber gloves remains intact.

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Among the top performers during the month by contribution were Petrobras and Thai Beverage. **Petrobras** (Brazilian oil & gas) has been a poor longer term performer. News flow in the month has been largely out of the company's influence - S&P cut its rating on Brazil and Petrobras, the Brazilian currency continued to strengthen, and Brazilian election predictions took shape. **Thai Beverage** (largest beverage producer in Thailand) had full year results that showed the strength of its alcoholic beverage portfolio in Thailand, and in particular its spirits portfolio. Consumer sentiment has been depressed by on-going political battles, but this has allowed its brands to benefit from trading down. Recent duty increases have also helped as the company usually increases prices by more than the tax hike.

The Ukraine crisis is dragging on, but losing newspaper inches. The agenda has moved on from the Crimea to preventing Russia taking more ground in the former Soviet states. This is their second similarly styled annexation. With the Crimea solidly pro-Russian, a fragile European economic recovery, and Russia's energy influence, it is likely that Putin's land grab gamble has paid off. Putin has clearly stated over the years that he wants to reassert Russian influence in the former Soviet states to provide a buffer against Western European expansion (using a combination of its energy and military might). With this in mind it is likely Russian stocks will bounce near term, if the status quo is accepted, but the long standing Russia discount may remain for a long time to come. Our holding in **Lukoil** (Russian oil & gas) trades on a price earnings ratio of 4, a price to book ratio of 0.5, and a dividend yield of 6%.

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