



# Emerging Markets Investment Report

## March 2016 Newsletter

Oldfield Partners

### Performance Summary

USD terms	Emerging Markets Equity Composite	Index*
March	+9.9%	+13.2%
2016 to date	+15.2%	+5.7%
1 year	-3.2%	-12.0%
3 years annualised	-2.1%	-4.5%
5 years annualised	-2.5%	-4.1%
Since inception**	+570.2%	+261.1%
Since inception annualised**	+13.3%	+8.8%

\*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	8.5	+12.5%	+22.1%
SK Telecom	7.4	-3.1%	-3.1%
Embraer	7.0	-11.9%	-11.9%
Buenaventura	6.8	+41.0%	+41.0%
Ternium	6.4	+20.1%	+20.1%

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

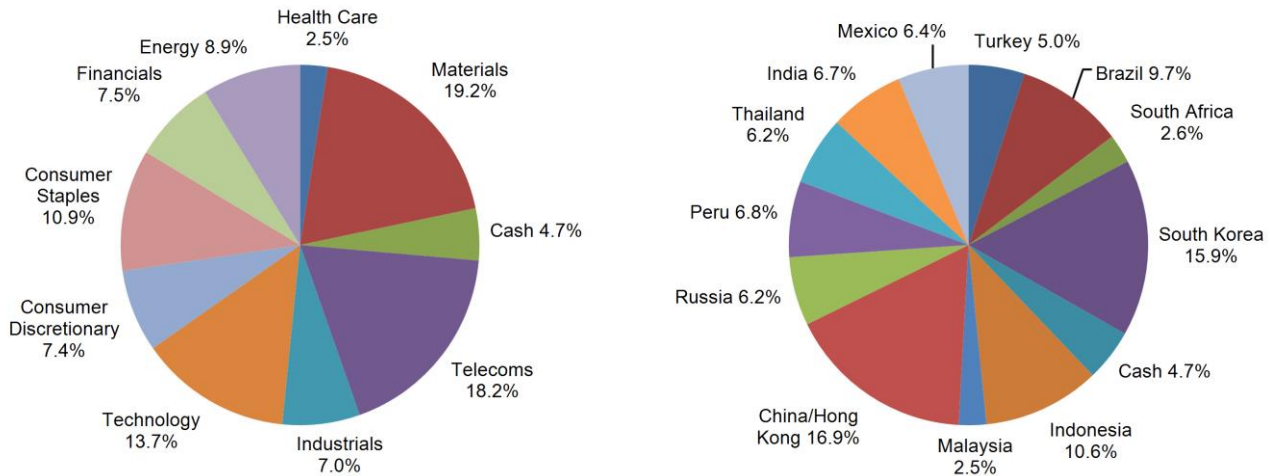
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### Sector and country breakdown as at 31<sup>st</sup> March 2016



Source: Oldfield Partners.

### Commentary

Although it may not feel like it we are in an emerging market equities bull market, with the MSCI Emerging Markets Index having rallied 20% in US dollar terms from its January lows. Central bankers have delivered their goodies on cue, commodity prices and emerging market currencies have rallied, and investors must ponder if the outlook justifies further upside for emerging market equity prices. The valuation of emerging markets still remain attractive with the index trading on a price to book of 1.4, well below the historic longer term average, and the upside to the weighted average price targets of the portfolio is 58%.

The bottom performers during the month by contribution were Embraer, SK Telecom, and Yue Yuen. **Embraer** (Brazilian regional jet manufacturer) had disappointing fourth quarter results and lowered its guidance. The business jets division was the drag, and the defence business continued to be weak. **SK Telecom** (Korean mobile operator) is in a solid position in the Korean mobile market, but growth rates will slow for the industry as 4G penetration matures. South Korea has elections in mid-April and this can impact sentiment towards the telecommunication stocks. **Yue Yuen** (Hong Kong athletic shoe manufacturer) had full year results in the month which showed the ongoing recovery in the retail division, whilst the manufacturing division was less sparkling, it maintained modest growth. Strong cash flow generation and balance sheet support its 4.6% dividend yield.

The top performers during the month by contribution were Buenaventura, Samsung Electronics, and Petrobras. **Buenaventura** (Peruvian miner) benefited from improved sentiment towards miners and the higher gold price. Management continue to focus on costs and expansion projects with lower cash costs. **Samsung Electronics** (Korean consumer electronics) released its flagship handset the Galaxy S7 to rave reviews and record pre-orders. It is the key profit generator for the mobile handset division,

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and it is likely that a better mix towards the curved screen version and a lower build cost for this model over the Galaxy S6 will help an increase in operating profit margins for this division. **Petrobras** (Brazilian oil & gas) rallied with oil prices, a stronger local currency, and the dramatic events on the Brazilian political scene. The fourth quarter results were more of a sideshow compared to the aforementioned macro factors, but large impairment charges (leading to a significant full year loss and so no dividend) overshadowed improvements in free cash flow. The share price has more than doubled from the lows earlier this year.

In the first quarter the top performers were **Buenaventura**, **Ternium**, and **Indofood**; and the bottom performers were **Embraer**, **Top Glove**, and **SK Telecom**.

**Eros International** (Indian Bollywood films) had more good news in its battle to mend the reputational damage caused from the short seller attack on the company late last year. The independent US legal firm hired to review the accounting practices, policies, and disclosures returned a clean bill of health. Management maintain guidance of being free cash flow positive next quarter, which is the next significant hurdle. During this episode none of the long standing major shareholders, including ourselves, sold any shares, despite the significant fall in the share price and theatrics of the short sellers. The share price has rallied 69% from its lows earlier in the year.

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