



Emerging Markets Investment Report

March 2018 Newsletter

Oldfield Partners

Performance Summary

USD terms	Emerging Markets Equity Composite	Index*
March	-2.8%	-1.9%
2018 to date	+2.7%	+1.4%
2017	+26.8%	+37.3%
1 year	+21.4%	+24.9%
3 years annualised	+12.9%	+8.8%
5 years annualised	+6.9%	+5.0%
Since inception**	+898.0%	+428.8%
Since inception annualised**	+14.3%	+10.1%

*MSCI Emerging Markets (Net Dividends Reinvested). **Inception 1st 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.

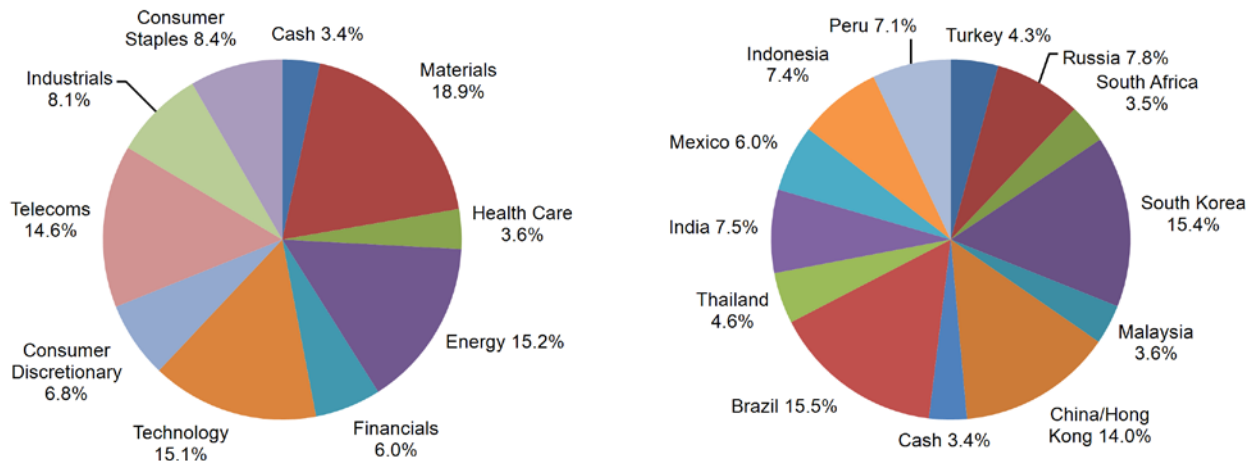
Performance of Five Largest Holdings*

Stock	Portfolio Weighting*	Monthly Performance (local terms)**	Monthly Performance (USD terms)**
Samsung Electronics	8.8%	+4.6%	+6.7%
Embraer	8.1%	-2.6%	-2.6%
Lukoil	7.8%	+2.7%	+2.7%
Petrobras	7.3%	-0.8%	-0.8%
Buenaventura	7.1%	-2.1%	-2.1%

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

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 necessarily a guide to future performance.

Sector and country breakdown as at 31st March 2018



Source: Oldfield Partners.

Commentary

Emerging market equities continued to be volatile over the month. Recent concerns of a brewing trade war between the US and China threaten to spoil the global economic growth background. Overall the valuations in emerging market equities remain reasonable and the weighted average of the price targets in the portfolio shows an attractive 38% upside.

Among the bottom performers by contribution in the month were Yue Yuen and Ternium. **Yue Yuen** (Hong Kong listed manufacturer of athletic shoes) had been a strong performer earlier in the year as it sold its troubled retail division to its parent at a premium to the current share price and promised to distribute the proceeds as a special dividend. More recently sentiment towards the company has been dented because of the brewing trade war between the US and China. This looks unfair as Yue Yuen's Chinese production has fallen dramatically in recent years to only 15% of volumes, and the remainder is in Vietnam and Indonesia, so currently not at risk of increased US tariffs. **Ternium** (Latin American steel producer) is exposed to the ongoing renegotiation of NAFTA and further tariffs for steel imports to the US, although NAFTA countries are currently exempt. US trade frictions often hit investor sentiment in Ternium because its key production is in Mexico, but as US steel prices increase due to tariffs then simplistically in the near term Ternium will benefit as Mexican steel prices follow. We still believe that NAFTA will be successfully renegotiated without materially worse terms for Ternium.

Among the top performers by contribution in the month were Samsung Electronics and Lukoil. **Samsung Electronics** (South Korean consumer electronics) has thankfully reduced the length of the trading halt in its shares for the upcoming share split to only three days (ending 3rd May). Semiconductors are the mainstay for the company and the near term outlook remains favourable, especially in DRAM. **Lukoil** (Russian oil & gas producer) held its strategy day towards the end of



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the month. It announced buybacks will be a more permanent feature, over the ten-year planning horizon, subject to free cash flow post dividend payments. Management's priority of progressive dividends over alternative uses of cash flow remains in place. Free cash flow remains strong, whilst capex has peaked. High margin oilfields subject to tax benefits are showing solid production growth.

The top performers by contribution for the first quarter were **Petrobras** (Brazilian oil producer) and **Lukoil** (Russian oil producer), and the bottom performers were **SK Telecom** (South Korean mobile telecom operator) and **Telkom Indonesia** (Indonesian telecom provider).

Total assets for the emerging markets strategy are now slightly over US\$1billion, which is our capacity limit. If you are interested in making a new investment or adding to an existing holding, we therefore request that you contact us to discuss this.

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