Emerging Markets – Composite

Patient, unconstrained, contrarian value investing

31 March 2020

Monthly composite review

Composite particulars

Launch date	01 January 2001
Comp. assets	US$469.2m
Structure	Composite
Base currency	USD
Benchmark	MSCI Emerging Markets

"A concentrated portfolio concentrates the mind..."

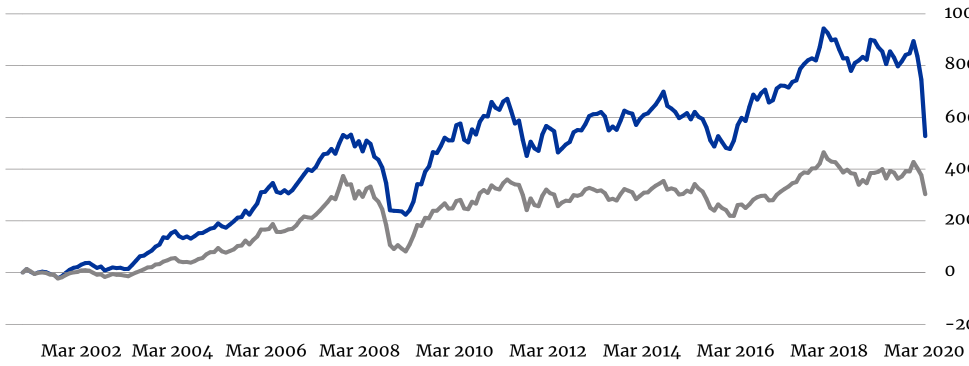
About Oldfield Partners

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 (%)



					Annualised		
	1 month	YTD	1 year	Launch	3 years	5 years	Launch
■ Emerging Markets Equity	-25.8	-36.9	-35.4	+527.4	-8.6	-1.9	+10.0
■ MSCI Emerging Markets	-15.4	-23.6	-17.7	+303.0	-1.6	-0.4	+7.5

Preceding five calendar years performance	2019	2018	2017	2016	2015
Emerging Markets Equity	+7.8	-5.0	+26.8	+31.7	-16.5
MSCI Emerging Markets	+18.4	-14.6	+37.3	+11.2	-14.9

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

The Covid-19 pandemic has seen dramatic monetary, fiscal, and social response from governments to stabilise economies and markets; with the promise of more to come as this medical crisis unfolds. The length and depth of the crisis is still uncertain, a deep global recession is a given, and the shape of a recovery remains an open question. Emerging markets are overall in decent financial shape compared to past crisis points, but there are many weaknesses; and many have reacted early with social measures, but lack the depth of medical facilities. It is hard to generalise in this instance and care is needed in stock selection. We favour holdings that can survive this period – having characteristics such as a strong balance sheet, solid proven franchises, producing assets low down on the global cost curve, or access to government assistance.

Following a sharp correction the valuation of emerging markets has moved towards the bottom end of its historic valuation range with the price to book ratio of the MSCI Emerging Markets Index at 1.2x and the potential upside of the portfolio from a weighted average of the holdings price targets at over 100% - levels not seen since early 2009 and early 2016. This should be comforting to the patient long term investor. We have a little over eight percent in cash to take advantage of opportunities and to potentially add new holdings currently under review.

The bottom performers by contribution for the month are Embraer and our two oil holdings. **Embraer** (Brazilian aircraft manufacturer) is facing a near total freeze in the global aviation industry. It has a substantial order book of $16 billion but this is facing the prospect of deferrals as the airlines fight for survival. The deal with Boeing for the bulk of its regional jet business is under pressure, although both sides are committed and there has been no mention of price renegotiation. Much depends on the fate of Boeing, which has its own financial pressures, but Embraer could survive as a standalone entity if needed. It has no liquidity issues in this year. Embraer is an object of national pride and the Brazilian defence champion. The Brazilian government would come to its aid in the worst case. **Petrobras** (Brazilian oil producer) has spent the last several years in deleveraging mode, debt management and capital expenditure restraint. Despite carrying debt it has no liquidity issues for a couple of years. It has low cost producing assets in the Santos basin, and will reduce output elsewhere and optimise refining output. It is a national champion and we can expect the current government to be supportive. **Lukoil** (Russian oil producer) is a low cost producer of oil, with a rock solid balance sheet and a shareholder return focussed management team (as they own

Commentary - continued

a substantial amount of the company). The Russian oil industry can weather low oil prices as the rouble adjusts to keep its costs low and the Russian oil tax reduces substantially in a low oil price environment. We do not know how the Saudi-Russian price war will play out, it seems such a mis-judged stratagem to have a concurrent demand and supply shock, but we feel confident that both our holdings will survive a period of low oil prices (as they have done so in the near past).

The top performers by contribution for the month are Eros International and JSE. During the month we sold **Eros International** (Indian Bollywood film producer) as the lock-down in India would dramatically impact cinema attendance and its growing OTT (over-the-top) franchise, ErosNow, remains at an early stage of development requiring strong financial backing. **JSE** (South African stock exchange) has a regulated solid balance sheet and a natural monopoly position that will endure. **Samsung Electronics** (Korean electronics) and **Infosys** (Indian IT services) were the best performers in the month (not by contribution) with the smallest percentage fall in their share prices. Both have very strong balance sheets (substantially net cash) and are beneficiaries of technology demand that has held up into this crisis.

Capacity and flows

AUM of the strategy is now below our US$1bn capacity so we are accepting capital from investors, with priority given to existing investors and those on the waitlist, and then from new relationships. Our client base has always been a competitive advantage for us, and this has been underlined in the last month as we received net inflows in each of the past three weeks. If you are interested in the strategy, please contact us.

Appendix

Operational resilience

These are difficult times for us all and we want to reassure you that at Oldfield Partners our staff are healthy, our systems and processes are resilient, and we are operating as close to normal as we possibly can. From an operational viewpoint we are working from home and have had the necessary technology to do so for many years. The emerging markets team live walking distance apart and can even take a daily stroll at a socially acceptable distance in the park and green spaces locally. This has had zero impact on the day to day running of the investment strategy as we have a long term and detached thought process based on many years of experience in investing in emerging markets from a bottom up value perspective. 'Keep calm and carry on' is a good motto for any emerging market investor even in the best of times.

Liquidity and counterparty risk

A key part of our operational risk analysis is to focus on our counterparty risk and liquidity. We are pleased to report that over the recent period of volatility we have not experienced any issues with the underlying liquidity of our holdings. We have continued to favour stocks with ADRs/GDRs and deeper capital markets. Our independent Risk Management Committee recently re-tested our liquidity assumptions using trading volumes from the volatile mid-February to mid-March period and were satisfied with the results.

Our Risk Management Committee examines trade settlement risk as part of our wider risk management procedures. Considering recent events, we have re-assessed the creditworthiness of our executing counterparty. In order to minimise this risk, OP settles all trades on a Delivery versus Payment ("DVP") basis. This ensures that delivery occurs only if a payment occurs. It also reduces the chance that deliveries or payments would be withheld during periods of stress in the financial markets thereby reducing liquidity risk. We do not short stocks, use leverage or lend securities. We do not hold any unquoted securities. We execute all trades in equities through Northern Trust under an outsourced trading arrangement. Northern Trust is a custody bank with an A+ credit rating. Furthermore, actions by governments and central banks around the world are also helping to ensure sufficient liquidity in the financial system. We remain comfortable with the risks associated with Northern Trust and that the risks associated with trade settlement are low.

Composite analysis

Top 10 holdings (%)

		1 month total return (%)*	
	Weighting	Local terms	USD
Samsung Electronics	9.2	-11.9	-12.8
SK Telecom	8.7	-15.3	-15.3
Thai Beverage	7.7	-22.4	-24.0
Lukoil	7.5	-29.5	-29.5
Telkom Indonesia	7.0	-20.8	-20.8
Lee & Man Paper	6.5	-22.7	-22.3
Indofood	6.5	-2.7	-13.9
Buenaventura	5.8	-34.6	-34.6
Embraer	5.5	-51.4	-51.4
Infosys	5.5	-18.5	-18.5

*Inclusive of portfolio activity.
All data as at 31 March 2020.
Source: Oldfield Partners.

Sector breakdown (%)

Communication Services	20.0
Materials	17.0
Information Technology	14.7
Consumer Staples	14.2
Energy	12.4
Industrials	5.5
Consumer Discretionary	4.4
Financials	3.9
Cash	8.1

Country breakdown (%)

South Korea	17.9
Indonesia	13.5
China/Hong Kong	12.5
Brazil	10.3
Thailand	7.7
Russia	7.5
Peru	5.8
India	5.5
Mexico	4.6
Turkey	4.3
South Africa	2.3
Cash	8.1

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