Oldfield Partners

Emerging Markets - Composite

Patient, unconstrained, contrarian value investing

Quarterly Newsletter | Q1 2024

Composite particulars

Manager(s)	Tom Taylor Charles Sunnucks
Launch date	01 January 2001
Comp. assets	US$252.0m
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.

All data as at 29 March 2024.
Source: Oldfield Partners.

Composite performance (%)

					Annualised		
	1 month	QTD	YTD	1 year	3 years	5 years	Launch
Fund	+4.0	+4.5	+4.5	+17.2	+2.0	+1.9	+10.7
MSCI Emerging Markets	+2.5	+2.4	+2.4	+8.2	-5.0	+2.2	+7.6

Preceding five calendar years performance	2023	2022	2021	2020	2019
Fund	+20.8	-20.9	+11.6	-3.7	+7.8
MSCI Emerging Markets	+9.8	-20.1	-2.5	+18.3	+18.4

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.

Portfolio breakdown

Top 10 holdings (%)

	Weight	MTD*	QTD*
Samsung Electronics	8.2	+11.4	+0.4
Embraer	7.5	+36.7	+44.4
SK Telecom	5.7	-1.1	+0.3
SK Square	5.6	+12.2	+43.7
Alibaba	5.2	-3.6	-7.3
Ternium	5.2	+2.7	-2.0
ASE Technology	5.0	+14.4	+14.0
Petrobras	4.9	-7.9	-2.5
Infosys	4.8	-10.2	-2.4
Indofood	4.6	-4.7	-4.1

*Total return in USD, reflects ownership period.

Country breakdown (%)

China/Hong Kong	20.8
Brazil	20.2
South Korea	19.5
Mexico	9.1
Indonesia	8.6
Taiwan	5.0
India	4.8
Peru	4.5
Thailand	4.4
Cash	3.0

Characteristics

	Fund	Benchmark
P/E ratio (fwd)	10.2	12.1
P/B ratio (hist)	1.1	1.7
Gross div. yield (fwd)	4.1	3.0
Active share (%)**	93.1	

**Active share is calculated using the sum of the absolute value of the differences of the weight of each holding in the manager's portfolio versus the weight of each holding in the MSCI Emerging Markets index, divided by two.

Sector breakdown (%)

Consumer Staples	18.9
Information Technology	18.0
Materials	13.6
Communication Services	13.3
Industrials	13.1
Consumer Discretionary	11.7
Energy	4.9
Health Care	3.5
Cash	3.0

Fund manager commentary

It has been a tumultuous start to 2024. Following initial declines through January, the market then picked up and rallied ahead in February and March. At the headline level, the MSCI EM index returned 2.4%, the MSCI EM value index returned 1.3%, and the composite 4.5%. Within markets, during the quarter India continued to be the top performing of the major EM markets, up nearly 7%, while Brazil was the weakest market, down over 5%.

Key events across the quarter included the Taiwan election in January, the Indonesian election in February, and the Russian election in March. We have written about the relevance of these election outcomes to the portfolio in detail - articles available on the Oldfield Partners website. Ultimately however, there were no big upsets in terms results, and as we pointed out in our January "Known Knowns" piece, it has historically been the case that "that on average markets perform better in the 12 months subsequent to an election than they do in the 12 months leading up to it." This can seem counterintuitive given the policy treats often dangled by officials during an election year, but does reflect the extent that investors tend to overly conflate uncertainty with risk. For the fund, it continues to be the case that stock selection is largely bottom-up, however as part of a comprehensive research process the broader backdrop is always considered.

At the stock level, the key contributor was Brazilian aircraft manufacturer Embraer, and the main detractor Indonesian telecommunication leader Telkom Indonesia. The Embraer share price performance was largely supported by its rising orderbook, including a substantive 90 jet order from American Airlines Group. The firm also had continued success with its C-390, which is now really evidencing global traction, including orders across Europe, the Americas, Africa and Asia. The position weight has been trimmed back to manage single stock exposure, however we continue to believe that the valuation remains attractive at its current level.

The key detractor, Telkom Indonesia, was hurt due to a drop in pricing for some its plans. This was done by the firm in an effort to further expand their market leadership. While Telkom Indonesia's own balance sheet is very strong, that of their competitors is far less so. The firms rational for lower pricing is that it will create consolidation and structurally higher profitability in the long-term; the drawback is that it does mean some downward pressure on earnings over the near-term. We continue to monitor the situation, but take courage in the firm's already depressed valuation creating a buffer to a further meaningful move down.

Portfolio changes

There were several position changes during the quarter. This included the purchase of Brazilian beverage firm Ambev, Brazilian healthcare service provider Hapvida, and Chinese dairy company Mengniu. During the quarter Lee & Man and SK Hynix were exited. This is a notably higher than average quarterly turnover, reflecting the extent that valuation levels have dispersed within EM, thereby changing our relative conviction. All new holdings had been on our Focus List prior to investment, and therefore while they may be 'new' to the portfolio, they are certainly not 'new' to us.

The Fund initiated a position in Ambev post a comprehensive review into the beverage industry. Ambev use to be treated as an EM 'blue-chip', enjoying market leadership in a high growth industry that benefitted from rising disposable incomes in Brazil. The firm has however had a difficult decade, both operationally and in terms of investment return, (the share price has more than halved). This has been due to a combination of cyclical and structural factors. On the structural side, the emergence of Heineken as a competitive force in the region has made the market structurally more competitive. On the cyclical side, a weak Brazil since 2014 has hurt 'on-trade' volumes, and this has been coupled in more recent years with higher input costs weighing on margins. The challenge has been delineating between the transitory and long-term, however at the current valuation level we feel comfortable that the risks skew heavily to the upside at this point.

The fund also invested in Brazilian healthcare service provider Hapvida during the quarter. Hapvida was established in 1979 as a hospital operator, later developing to also sell health insurance policies. Formerly a market darling for growth investors due to its market dominance and the structural growth in private healthcare plans, profitability was then severely affected by a COVID induced pricing cycle. The subsequent turn in the share price was severe, and even now the firm is still down over 70% from its 2021 high. There is however increasing evidence that the firm's profitability has already troughed, and we are at the foothills of a new cycle. Normalising for through-the-cycle profits, Hapvida is currently at a considerable discount to its fundamental value, and as such very appealing in our view.

Within China, a position was established in leading Chinese dairy company Mengniu. The firm was founded in Inner Mongolia during the 1990's, and is now one of the most widely recognised brands in the country. Mengniu has benefitted from domestic per capita consumption of milk rising off a low base. Even now, milk consumption in China remains only just above one-tenth of the UK, and is still only approximately one-third the level of neighbours Japan and Korea. Mengniu's share price however more than halved in 2023, impacted by slowing growth due to a meaningful decline in the price of milk and the broader exodus of foreign interest from China. As milk is a relatively staple product and the valuation is severely depressed relative to its history and global peers, we believe that the stock has an ample valuation buffer at this point. In addition, there is considerable scope to the upside if trend growth resumes.

A position was also initiated in the Chinese market leading online travel agency Trip.com. Founded in 1999, the firm has largely enjoyed robust growth from rising travel demand. It has however struggled the last five years, first due to a rise in competitive intensity putting pressure on pricing power, then COVID. We believe that these factors are largely transitory, as the market has now stabilised into a duopoly and Chinese COVID travel restrictions have been lifted. The company is more cyclically exposed to the Chinese consumer than other holdings, but we believe that there is a solid value case for a smaller sized position given the valuation scope to the upside.

The funds position in paper and packaging manufacturer Lee & Man was exited during the quarter. The investment case into Lee & Man had initially been premised on the rise in online commerce increasing demand for packaging, a recovering Chinese consumer post-COVID, and a more constrained supply environment. While this may well play out over time, we became increasingly uneasy around an ongoing difficult operating environment, plus several senior management changes.

The fund also exited its holding in SK Hynix during the quarter. This was a tough decision, as operationally the firm was performing ahead of our expectations - namely due to their market leadership in High Bandwidth Memory production. However, due to the extent of the firm's stock price rally, other names on the Focus List became more appealing on a relative basis. In addition, the fund maintains active exposure to SK Hynix through its investment in SK Square. SK Square trades at a 70% discount to NAV, and approximately 80% of that NAV is SK Hynix. The fund also maintains a position in Samsung, a firm that we believe is very well positioned for the decade ahead and continues to trade at a deep discount to fundamental value.

Outlook

We remain confident that at a holdings level there remains considerable overlooked value across the portfolio. Over the past decade, emerging markets have performed severely behind developed markets, and this has bifurcated valuations, creating compelling opportunities for bottom-up investors.

In terms of 'what could go wrong', at the company level, each holding has its own idiosyncratic risks, although these risks vary in form and degree. At the 'macro' level, key areas that we continue to monitor include the extent that China policy makers maintain control of rebalancing the economy; the possibility of new conflict arising or spreading; and the changing demand outlook for developed markets. The elections in the US will also likely play a significant role effecting overall market confidence. The world may be becoming increasingly multipolar, but the US is still the single largest cog when it comes to global economic activity.

Beyond the high-level figures, there is a complex melting pot of opportunity and risk. It is an exciting time to be an active value investor, and importantly, based on our valuation analysis there remains a high level of upside to the fund's positions. We however maintain long-term patient investors, and as such shy away from grand annual predictions. What we can however note is that 2024 will no doubt have its share of surprises, and valuations are at a level that has been historically indicative of strong positive subsequent returns.

Russian holdings

Please note that on 3rd March 2022 the Fund's investment in Lukoil ADR listed on the London Stock Exchange (LSE) was suspended from trading. Our

Commentary - continued

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).

Given the current international sanctions on Russian securities and cash balances, we believe that if lifted and the Fund was able to access the local market, the holding in Lukoil PJSC (with a current FVP of zero) would represent 12% of the Fund and cash dividend of 2.3%. On 22nd August 2023 a Reuters article suggested that Lukoil was planning to repurchase 25% of its shares from foreign shareholders. The repurchase price would be at least a 50% discount from the quoted price. We continue to monitor the situation closely.

Portfolio Management

We are excited to announce that Charles Sunnucks will join Tom Taylor as co-manager of our Emerging Markets Equity strategy. Since joining the strategy as an Associate Manager last September, the dynamic has been working so well that it is clear he should now step up to be co-manager alongside Tom. We believe that this move will improve our process and, most importantly, lead to better outcomes for our clients over time as well as providing long-term thoughtful succession planning.

Charles joined OP at the start of 2023, prior to which he was involved in cross-border M&A transactions at investment bank NovitasFTCL. He previously worked at Jupiter Asset Management where he co-managed the Jupiter Emerging & Frontier Income Trust. Charles speaks fluent Mandarin and is a CFA/CAIA Charterholder.

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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.