

# OLDFIELD PARTNERS

## EMERGING MARKETS INVESTMENT REPORT

### MAY 2014

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

USD terms	Emerging Markets Equity Composite	Index*
May**	+2.4%	+3.5%
2014 to date**	+2.6%	+3.4%
2013	+6.1%	-2.6%
1 year	+4.1%	+4.3%
3 years annualised	+0.3%	-1.8%
5 years annualised	+10.7%	+8.4%
Since inception***	+632.9%	+324.4%
Since inception annualised***	+16.0%	+11.4%

\*MSCI Emerging Markets (Net Dividends Reinvested).

\*\*Estimate used for May 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	8.4	+7.4%	+8.8%
Embraer	7.2	+5.3%	+5.3%
Lukoil	6.5	+7.1%	+7.1%
SK Telecom	6.5	+3.2%	+3.2%
Petrobras	6.4	+0.9%	+0.9%

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

\*\*Total return inclusive of dividends.

Source: Oldfield Partners and Bloomberg.

Oldfield Partners

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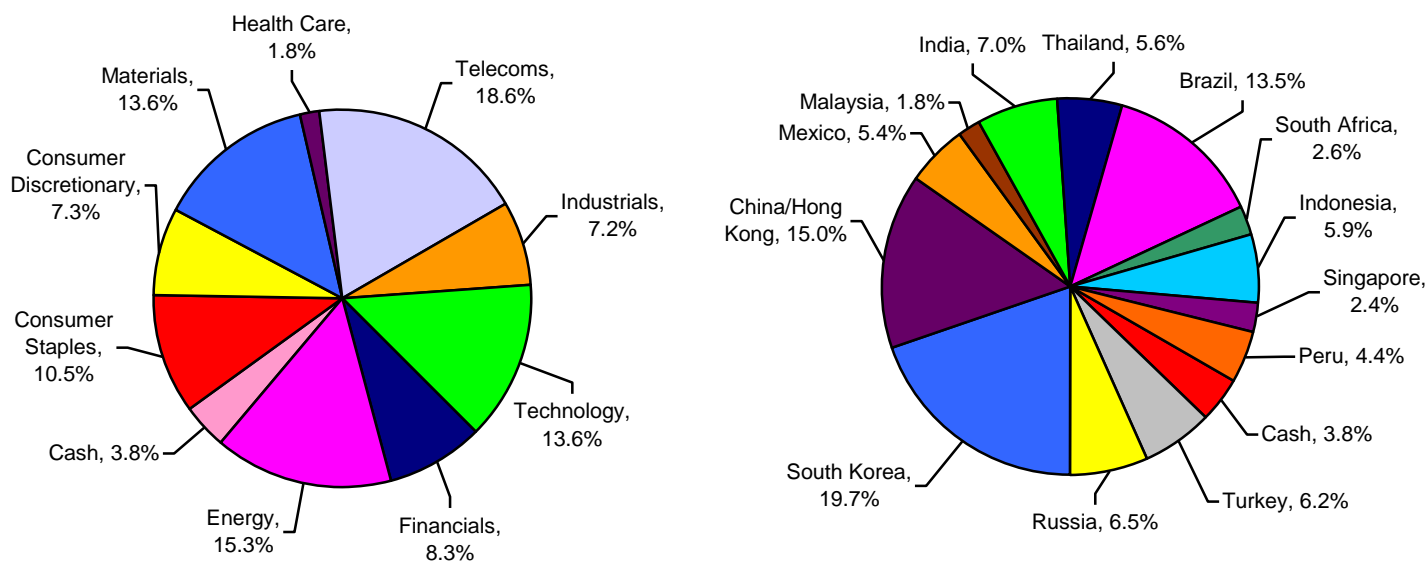
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#### Sector and country breakdown as at 31<sup>st</sup> May 2014



Source: Oldfield Partners. Representative Portfolio used.

#### Commentary

The portfolio has lagged the MSCI Emerging Markets Index this month and year to date. Sentiment towards emerging markets remains downbeat in part due to political events across some of the key developing countries. However, valuation for the MSCI Emerging Markets Index is attractive and well below its long term historic average. We see 42% upside to the weighted average of the portfolio's price targets.

The worst two performers during the month by contribution were Buenaventura and Lee & Man Paper. **Buenaventura** (Peruvian miner) had poor first quarter results, as its key gold mining assets hit a period of lower quality ore, and so increased the costs to mine it. This should reverse in the second half of the year. A falling gold price during the month did not help. The conservative management team is cutting costs, and closing or divesting lower quality assets. The company trades on a price earnings ratio of 8, 0.7 times book value, and has a solid balance sheet. **Lee & Man Paper** (Chinese packaging materials) has fallen through the year reflecting investor concerns over the Chinese economy. Lee & Man Paper should continue to benefit from its industry positioning and its key end markets should remain buoyant. It trades on a price to book multiple of 1.1.

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The top two performers during the month by contribution were Telkom Indonesia and Samsung Electronics. **Telkom Indonesia** (an Indonesian telecom provider) has performed strongly this year as investor interest has returned to the country. The company is especially well positioned to benefit from the growth of mobile services in rural Indonesia (the country has the world's fourth largest population) and its increasing sophistication from a low base. **Samsung Electronics** (Korean consumer electronics) has performed well on the combination of a cheap valuation of 8 times earnings for a global leader and the prospect of an announcement of greater shareholder returns at its next quarterly results. The company has net cash of 20% of its market capitalisation, and this is forecast to grow considerably over the coming years without an increase in dividends or share buybacks. The timing and size of this potential largesse is uncertain, with many global technology and Korean managements quite happy to hold onto cash piles for lengthy periods, but we feel the chance of a change is increasing

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