



Emerging Markets Investment Report

May 2017 Newsletter

Oldfield Partners

Performance Summary

USD terms	Emerging Markets Equity Composite	Index*
May	+2.7%	+3.0%
2017 to date	+9.3%	+17.3%
2016	+31.7%	+11.2%
1 year	+22.0%	+27.4%
3 years annualised	+4.5%	+1.6%
5 years annualised	+8.2%	+4.5%
Since inception**	+737.0%	+345.4%
Since inception annualized**	+13.8%	+9.5%

*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	8.3%	+0.1%	+1.6%
SK Telecom	8.1%	+6.5%	+6.5%
Embraer	8.0%	+3.0%	+3.0%
Lee & Man Paper	7.0%	+12.8%	+12.6%
Buenaventura	6.9%	+3.7%	+3.7%

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

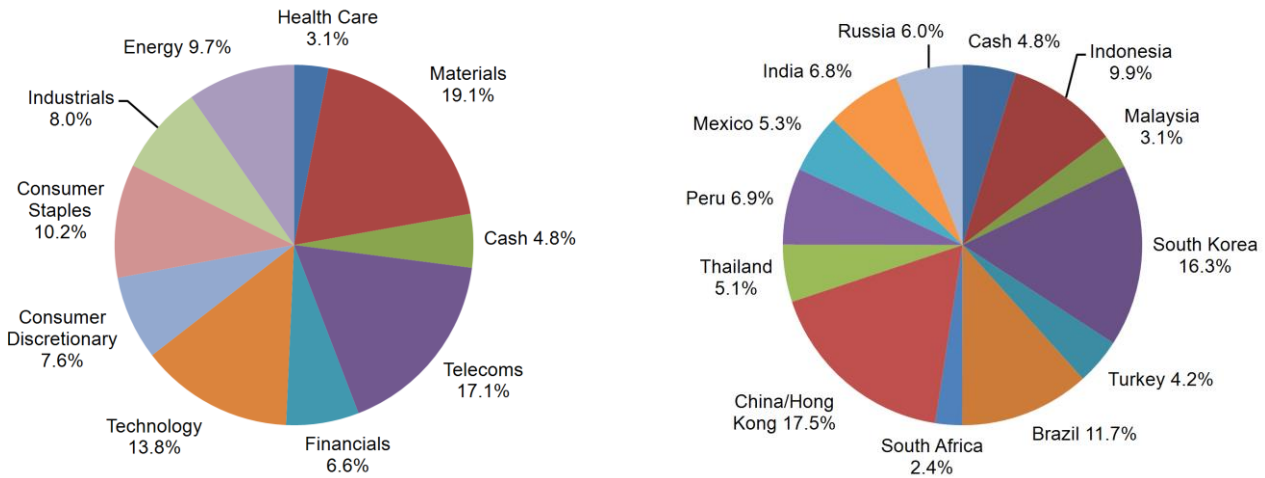
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Sector and country breakdown as at 31st May 2017



Source: Oldfield Partners.

Commentary

Emerging Markets have attracted \$28 billion of inflows year to date and the vast majority has gone into index tracking financial products. Growth investing has clearly outpaced value investing this year – tightening in China and disappointments with the US administration’s policy achievements have been unhelpful. A broadening of the cycle has favoured sectors such as media, services and information technology. We have lagged the index this year.

The information technology sector has four of the top five holdings in the MSCI Emerging Market Index, and the fifth is really a technology stock in disguise, and seven of the top ten holdings. The sector is now 25% of the index. These top five holdings in the index have significantly outperformed, and have increased by 35% year to date (in US\$ and equally weighted). The Chinese internet stocks have done tremendously well, but trade on fifty times earnings – billions of emerging market consumers armed with smartphones, downloading gaming apps, shopping online, and using social media makes a potent story. However, as a well-known value manager once told me, when faced with a similar scenario in the year 2000: ‘Trees do not grow to the sky’.

In contrast holdings such as an aeroplane manufacturer, a steel company, and an athletic shoe producer could sound rather old fashioned, despite trading on rather attractive old fashioned valuation levels and doing just fine. We are comforted by the 43% upside to the weighted average of the price targets in the portfolio.

The laggards during the month by contribution were Petrobras and Lukoil. The two worst performing stocks are in the unloved oil sector. The oil price has been trading in a range between \$40 and \$55 since early last year, and we believe this lower oil price environment will continue. **Petrobras**

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(Brazilian oil producer) was also hurt by another wave of political scandal in Brazil, although the company is not directly implicated. The management team continue to execute well on the deleveraging strategy and corporate governance improvements. **Lukoil** (Russian oil producer) produced a good set of first quarter results, showing it can do well in a low oil price environment, but Russia remains out of favour. The company trades on a prospective price earnings ratio of five and a dividend yield of 6.5%.

The top performers for the month were Lee & Man Paper, SK Telecom, and Top Glove. **Lee & Man Paper** (Chinese containerboard manufacturer) has been able to increase prices even in the traditionally quiet period and has been helped by continuing capacity restraint in the industry. The government led consolidation drive favours the larger players such as Lee & Man Paper. **SK Telecom** (South Korean mobile telecom provider) has performed well after the presidential elections as investors assumed changes to industry regulations would be limited and that anti-chaebol policies would be a positive. **Top Glove** (Malaysian rubber glove manufacturer) has benefited from the weak local currency, weaker raw material prices, and a stable competitive environment.

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