OP
Oldfield Partners

Emerging Markets Investment Report
May 2018 Newsletter

Performance Summary

USD terms	Emerging Markets Equity Composite	Index*
May	-3.9%	-3.5%
2018 to date	-1.0%	-2.6%
1 year	+14.9%	+14.0%
3 years annualised	+11.1%	+6.2%
5 years annualised	+6.4%	+4.5%
Since inception**	+861.9%	+407.8%
Since inception annualised**	+13.9%	+9.8%

*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	8.7%	-4.2%	-5.3%
Embraer	7.8%	-4.6%	-4.6%
Buenaventura	7.5%	-3.0%	-3.0%
Lukoil	7.4%	-0.1%	-0.1%
Petrobras	6.8%	-21.0%	-21.0%

*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.

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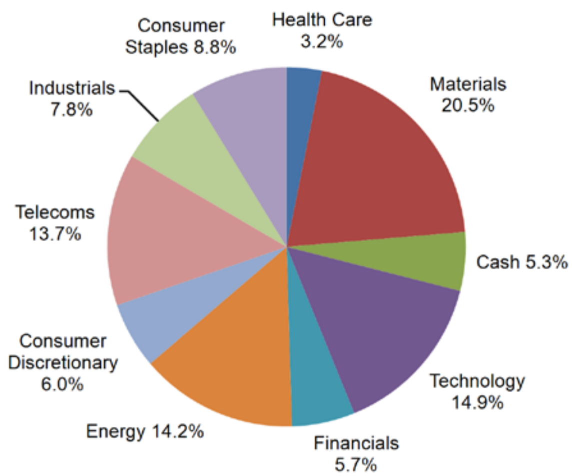
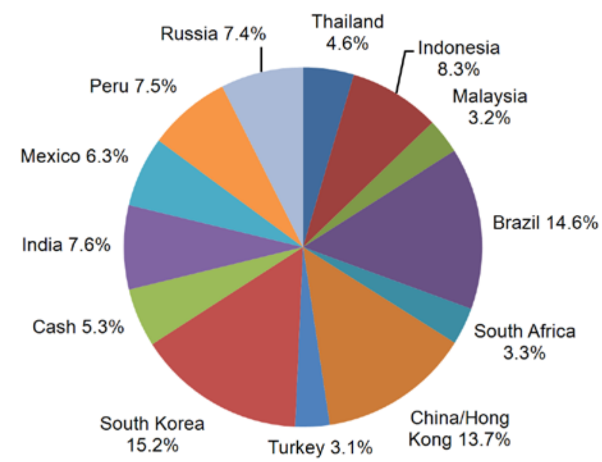
Sector and country breakdown as at 31st May 2018





Source: Oldfield Partners.

Commentary

Despite the wobbles in equity markets this month the valuation case for emerging market equities remains attractive, with the MSCI Emerging Markets Index trading comfortably below its longer term historic average valuation, and the weighted average of the price targets in the portfolio showing an attractive 40% upside.

The bottom performers by contribution in the month were Petrobras and Turkcell. **Petrobras** (Brazilian oil & gas producer) was impacted by a national strike by truckers in Brazil campaigning for reduced diesel prices. This was the first political test for Petrobras' new pricing policy, and it stumbled, but did not fall flat on its face. A compromise was reached in that daily price changes for diesel will be replaced by monthly changes, prices will be reduced for a short one-off period, and the Brazilian government will compensate Petrobras. This episode has cost the company its widely praised CEO. The real loss for Petrobras is that it showed it is still politically vulnerable, especially with elections this year, and that (any) changes to its pricing policy hurt its ability to make divestments of its refining assets. We added to the position after a sharp fall in the share price. Petrobras trades on a prospective price to earnings multiple of eight and at book value. **Turkcell** (Turkish mobile telecom provider) was impacted by the continuing negative sentiment from the macro-economic and political travails of Turkey ahead of elections at the end of June. The local currency has fallen 17% against the US dollar this year. In the near-term the company has currency hedges in place and pricing power is being maintained as it continues to increase prices by inflation. The outcome of the political cycle is not a given at this point, and volatility is likely to continue, but we like Turkcell operationally as it develops a digital eco-system against a backdrop of strong data and digital service growth in Turkey. Turkcell trades on a prospective price to earnings ratio of nine and with the ability to pay a dividend yield over 6%.

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The top performers by contribution in the month were Lee & Man Paper and Yue Yuen. **Lee & Man Paper** (Chinese containerboard manufacturer) continues to enjoy the favourable pricing environment in part created by the Chinese government's environmental policies. Regulators have culled the smaller industry players unable to meet stricter environmental standards and imposed stricter rules on imported recyclable waste paper that has favoured the larger industry players and has increased domestic waste paper pricing. The tight market for containerboard in China looks set to continue. Lee & Man Paper trades on a price to earnings multiple of eight and a dividend yield of 4%. **Yue Yuen** (Hong Kong listed athletic shoe manufacturer) has been successful in responding to changing industry dynamics over its history and keeping its core customers, but the ongoing move towards increased automation and short orders by clients will mean another period of change and margin pressure. Yue Yuen is trading on a price to earnings ratio of ten, price to book ratio of one, with a 6% dividend yield and a solid balance sheet.

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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