

# Emerging Markets – Composite

## Patient, unconstrained, contrarian value investing

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Oldfield Partners

31 May 2022

### Monthly composite review

#### Composite particulars

Launch date	01 January 2001
Comp. assets	US\$153.8m
Structure	Composite
Base currency	USD
Benchmark	MSCI Emerging Markets

*“A concentrated portfolio concentrates the mind...”*

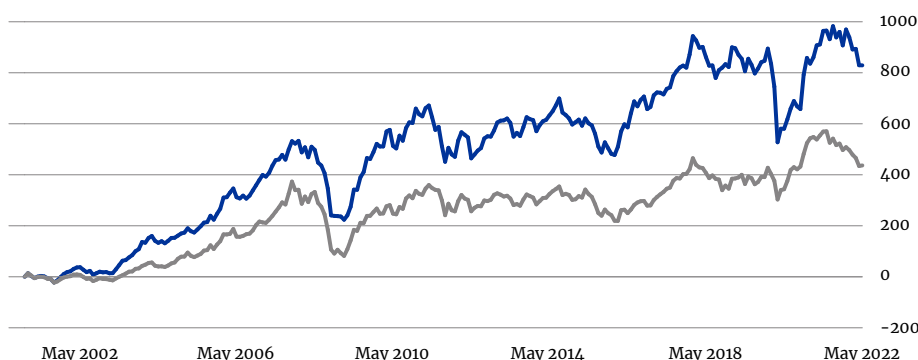
#### About Oldfield Partners

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 (%)



	1 month	YTD	1 year	Annualised	
				3 years	5 years
■ Emerging Markets Equity	0.0	-13.1	-12.7	+0.8	+2.1
■ MSCI Emerging Markets	+0.4	-11.8	-19.8	+5.0	+3.8

#### Preceding five calendar years performance

	2021	2020	2019	2018	2017
Emerging Markets Equity	+11.6	-3.7	+7.8	-5.0	+26.8
MSCI Emerging Markets	-2.5	+18.3	+18.4	-14.6	+37.3

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

Volatility is a feature of equity markets currently and we have a higher than usual cash balance to take advantage of any opportunities over the summer months. The global economy and investor sentiment are taking a series of body blows this year. The policy responses available are not well suited to dealing with supply-side issues so could look quite ham-fisted, but they may broadly achieve their goal over time. The bad news and uncertainty are being priced into equity markets with the MSCI Emerging Markets Index trading comfortably below its historic average valuations. The upside potential for the portfolio is 80% as measured by the weighted average of the company price targets.

We often find that ‘sum of the parts’ is a useful valuation tool, and it helps identify a number of interesting opportunities currently within the portfolio. Sometimes investors have good reason to overlook an asset, but at other times the asset can just be plain overlooked. We believe some of these are quite remarkable. **Embraer** (Brazilian aircraft manufacturer) has the majority stake in a New York listed company called EVE, which will produce a short-range electric flight vehicle, that equals the market capitalisation of Embraer – so the traditional regional jet, business jet, and defence businesses are for free. **Buenaventura** (Peruvian miner) owns a 20% stake in a copper mine, Cerro Verde, that now equals its entire market capitalisation – meaning its own mines come for free. **SK Square** (Korean technology holding company) holds a 20% stake in SK Hynix, a leading semiconductor manufacturer, that is worth double its current market capitalisation, and in addition it has stakes in some of Korea’s leading internet service ventures. **Indofood** (Indonesian snack foods) owns the majority of a separate listing for its consumer foods business that is valued in excess of Indofood’s entire market capitalisation – meaning its other successful businesses in flour, agriculture, and distribution are for free. There are others such as **Alibaba** (Chinese Internet services), **First Pacific** (Hong Kong listed holding company), and **Thai Beverage** (Thai alcoholic beverage producer) that trade on significant discounts to a reasonable net asset value or have significant assets that are not yet accorded value by investors.

The bottom performers by contribution for the month were Buenaventura and Telkom Indonesia. **Buenaventura** (Peruvian miner) is falling victim to the political issues facing Peru, with the President facing a series of political challenges and destabilising the economy. The administration is not mining friendly but in its challenged state has recognised the importance of this industry for the economy. Buenaventura is transitioning towards copper, from gold, as its largest metal output, and we are positive on the long-term prospects for copper. The prices for precious metals and copper have held up well year to date. **Telkom Indonesia** (Indonesian telecom operator) is strategically well placed in mobile, broadband, and new areas like data centres. Broadband is a duopoly in Indonesia with Telkom Indonesia as the market leader and seeing strong growth. Telkom Indonesia has a strong cost control discipline, and with a rational competitive backdrop in the industry, it has a favourable pricing environment.

## Commentary - continued

The top performers by contribution for the month were Petrobras and Ternium. **Petrobras**(Brazilian oil producer) has seen the government, its majority shareholder, react to higher domestic fuel prices by seeking to replace senior management at Petrobras (ironically that they recently appointed). This looks like a political 'need to be seen to be doing something', as the new management once in place continues to follow the international fuel price parity principle (as it must by law). The balance sheet has been repaired and with asset sales continuing and solid free cash flow generation from higher oil prices Petrobras is honouring its new dividend policy. **Ternium**(Latin American steel producer) is a beneficiary of a 'stronger for longer' US steel price. In addition, the Ukrainian crisis has curtailed steel exports from Russia and Ukraine to the global market. Mexico is an increasingly attractive manufacturing location boosting demand for flat steel.

## Russian holdings

Please note that as of 3rd March 2022 the holding of Lukoil ADR will have a fair value price (FVP) of zero. This has been determined by our Valuation Committee. Lukoil ADR listed on the London Stock Exchange (LSE) was suspended from trading by the exchange on the morning 3rd March 2022. We will continue to monitor the situation daily and update accordingly.

## Composite analysis

## Top 10 holdings (%)

	Weighting	1 month total return (%)*	
		Local terms	USD
Samsung Electronics	7.8	0.0	+1.7
Thai Beverage	7.3	+2.2	+3.2
Ternium	7.3	+7.3	+7.3
SK Hynix	6.7	-3.9	-2.2
Embraer	6.4	-5.9	-5.9
Telkom Indonesia	6.4	-7.5	-7.5
Indofood	5.6	+4.5	+4.3
Petrobras	5.3	+11.7	+11.7
Lee & Man Paper	5.3	+3.9	+3.8
Alibaba	5.2	-5.6	-5.6

\*Inclusive of portfolio activity.  
All data as at 31 May 2022.  
Source: Oldfield Partners.

## Sector breakdown (%)

Information Technology	25.7	
Materials	17.5	
Communication Services	12.9	
Consumer Staples	12.9	
Consumer Discretionary	8.8	
Industrials	6.4	
Energy	5.3	
Financials	4.8	
Cash	5.7	

## Country breakdown (%)

South Korea	22.7	
China/Hong Kong	16.7	
Indonesia	11.9	
Brazil	11.7	
Thailand	7.3	
Mexico	7.3	
Peru	4.9	
Taiwan	4.7	
India	2.8	
South Africa	2.2	
Turkey	2.1	
Cash	5.7	

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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. © 2022 Partnership No. OC309959.