



# Emerging Markets Investment Report

## July 2018 Newsletter

Oldfield Partners

### **Performance Summary**

USD terms	Emerging Markets Equity Composite	Index*
July	+0.1%	+2.2%
2018 to date	-4.4%	-4.6%
1 year	+4.7%	+4.4%
3 years annualised	+12.0%	+8.9%
5 years annualised	+6.9%	+5.2%
Since inception**	+828.7%	+397.4%
Since inception annualised**	+13.5%	+9.5%

\*MSCI Emerging Markets (Net Dividends Reinvested). \*\*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, MSCI © and Bloomberg.

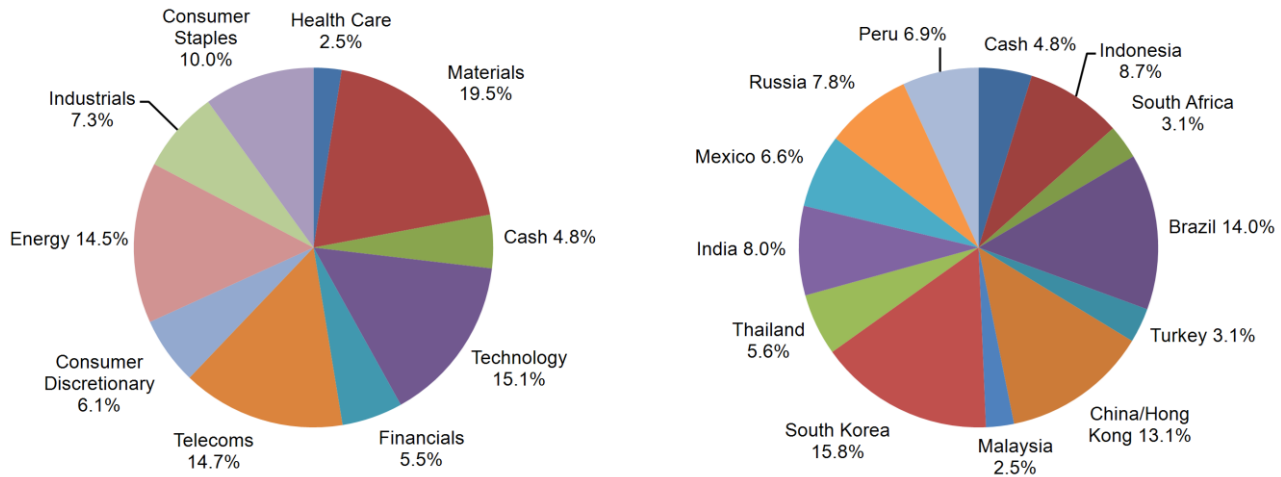
### **Performance of Five Largest Holdings\***

Stock	Portfolio Weighting*	Monthly Performance (local terms)**	Monthly Performance (USD terms)**
Samsung Electronics	8.5%	-0.2%	-0.1%
Lukoil	7.8%	+7.6%	+7.6%
Embraer	7.4%	-17.8%	-17.8%
SK Telecom	7.3%	+6.3%	+6.3%
Buenaventura	6.9%	+0.8%	+0.8%

\*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.

### Sector and country breakdown as at 31<sup>st</sup> July 2018



Source: Oldfield Partners.

### Commentary

The valuation case for emerging market equities remains attractive, with the MSCI Emerging Markets Index trading comfortably below its longer term historic average valuation. The price to book ratio for the index is 1.6. The weighted average of the price targets in the portfolio is showing an attractive 46% upside.

The bottom performers by contribution in the month were Embraer and Top Glove. **Embraer** (Brazilian regional jet manufacturer) announced details of the joint venture proposal in regional jets with Boeing. The long running negotiations (also involving the Brazilian government) had seen much of the proposal already come to light, and so it was not a surprise to the market. Overall it is a positive for Embraer as it retains 20% of the joint venture and gains Boeing's scale benefits in marketing the new generation of regional jets and separately in launching its transporter plane. Concern for investors centre on the undisclosed plans for the cash proceeds, although management said there would be a shareholder return, and if the deal can be finalised before the next Brazilian government takes a view. **Top Glove** (Malaysian rubber glove manufacturer) ran into problems with its recent (and highly praised) acquisition of the surgical glove manufacturer Aspion. Management alleged that some inventory and production lines were defunct and have taken legal action. Although some write down by Top Glove looks likely the share price has already corrected by more than the entire acquisition price, and the long-term prospects for Aspion are attractive, as is the current background to the latex glove industry.

The top performers by contribution in the month were Petrobras and Lukoil. Our oil companies are enjoying the stronger oil price fundamentals. **Petrobras** (Brazilian oil) is recovering following the trucker strike episode in Brazil that put a question mark over its independence in setting refined product prices



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and led the government to agree to compensate Petrobras whilst prices are managed. The Brazilian election cycle is underway and this is often a volatile time for the share price. **Lukoil** (Russian oil) continue to show their commitment to shareholder return and corporate governance improvement. Management announced its shareholder return plans remain on track, with the cancellation of its treasury shares and a buyback; and the weak rouble and strong oil price is a positive backdrop.

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