

Emerging Markets - Composite

Patient, unconstrained, contrarian value investing

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Oldfield Partners

31 July 2023

Monthly composite review

Composite particulars

Launch date	01 January 2001
Comp. assets	US\$139.0m
Structure	Composite
Base currency	USD
Benchmark	MSCI Emerging Markets

“A concentrated portfolio concentrates the mind...”

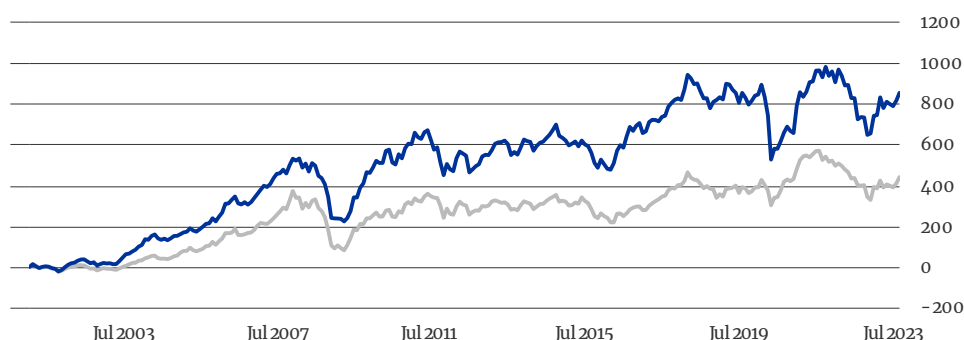
About Oldfield Partners

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
■ Fund	+4.2	+12.9	+14.2	+8.0	+0.6
■ MSCI Emerging Markets	+6.2	+11.4	+8.4	+1.5	+1.7

Preceding five calendar years performance					
	2022	2021	2020	2019	2018
Fund	-20.9	+11.6	-3.7	+7.8	-5.0
MSCI Emerging Markets	-20.1	-2.5	+18.3	+18.4	-14.6

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

Emerging market equities have the interesting global backdrop of a US economy needing to be cooled to contain inflation expectations and a Chinese economy needing to be kick-started to boost consumer expectations, address property issues and rising youth unemployment. The US economy has hopes of a soft landing and the Chinese economy has hopes for an effective stimulus policy. This leaves emerging markets sitting pretty for now, and on valuations below longer-term historic averages. While much of North America and Europe continue to grapple with inflation, this has already largely been tamed across much of EM. Indeed, quite remarkably, government bonds in markets such as China, Vietnam and Malaysia now have lower yields than equivalent bonds in the US or UK. This broadly affords emerging economies far greater policy flexibility. The upside potential for the portfolio is 75% as measured by the weighted average of the company price targets in the portfolio.

The bottom performers by contribution in the month were Telkom Indonesia and LG H&H. **Telkom Indonesia** (leading Indonesian telecom operator) will benefit from fixed-mobile convergence (called Telkomsel One) by merging its market leading networks in both areas, unlocking value in its infrastructure assets, and growing in data centres. Mobile competition remains rational with Telkom ceding some market share as it focuses on the fixed-mobile opportunity. It trades on 13 times earnings and a dividend yield of 5% - an attractive level compared to both peers and its history. **LG H&H** (Korean cosmetics manufacturer) has yet to see a sustained bounce back in demand from Chinese consumers after Covid. High-end cosmetics demand and travel to Korea being the biggest concerns. Local Chinese cosmetics brands have done best at capturing consumer attention since Covid. Management have initiated a brand refresh for their core premium cosmetic product 'History of Whoo' and announced a channel restructuring to reduce reliance on duty-free sales. The current valuation of 15 times forward earnings is significantly below its own 20-30 times historic trading range, and around half the current 30 times average for its global peers.

The top performers by contribution in the month were Alibaba, Ternium, and Petrobras. **Alibaba** (Chinese e-commerce) along with other Chinese internet stocks, reacted positively to the increased possibility of stimulus in the Chinese economy and the improved relationships with the Chinese government. Ant Group, the payments business which Alibaba has a 33% investment in, announced it had completed its regulatory overhaul and launched a buyback valuing the business at \$78.5bn. **Ternium** (Latin American steel producer) is benefiting from the continued high US steel price and the 'near-shoring' of industries to Mexico from China. Ternium is a low-cost producer of steel, a beneficiary of Mexican economic growth, and of increased domestic market share in steel through import substitution. It trades on a price to earnings ratio of 7, a dividend yield of 6%, and it has a strong balance sheet. **Petrobras** (Brazilian oil producer) was a strong performer last year as it was able to pay significant dividends to its shareholders. This looks set to continue

Commentary - continued

for 2023 despite a new dividend policy introduced by the new management team in late-July. The election of a socialist government in Brazil has unnerved investors, but we believe from experience that the Lula administration will be pragmatic in its dealing with Petrobras and any strategy changes will be implemented slowly. It trades on a price to earnings ratio of 4 and a forecast dividend yield of over 15%.

The fund initiated a position in Autohome and Orbia Advance during the month. This was part funded from the exit of **JSE** (South African stock exchange) and **Turkcell** (Turkish mobile telecom operator) that are facing a heightened level of political and country risk in their respective markets. **Autohome** (the leading online auto platform in China) generated strong growth over time, benefitting from the shift online in automotive media spend, and the network effect that comes with the market dominance of a platform business model. As the market matures, the company is no longer a high-growth business, it does however remain highly profitable and very cash flow generative. The valuation is compelling with net cash equivalent to almost 90% of the market cap and at 12 times 2023 earnings, despite earnings being in a cyclically low period – that is half the multiple that it traded at throughout much of the late 2010's. **Orbia** (Mexican PVC producer) is a manufacturer of pipes and cables, and is active across the PVC supply-chain, including the mining rights to the world's largest fluorine mine located in Mexico. The long-term case for structural growth in demand remains, with supply very tight and new investment in the space more limited than in past cycles. Near-term, there may be some pressure from a normalisation in the PVC price following the Covid period. Orbia continues to move up the value chain towards specialty products. It trades on a price to earnings ratio of 10 with a dividend yield of 5.5% providing valuation support.

Russian holdings

Please note that on 3rd March 2022 the Fund's investment in Lukoil ADR listed on the London Stock Exchange (LSE) was suspended from trading. Our Valuation Committee considered it was in the Fund's best interests that the holding of Lukoil ADR be fair value priced (FVP) at zero. In June 2022, we elected for the holding to be converted into local shares (Lukoil PJSC).

Given the current international sanctions on Russian securities and cash balances, we believe that if lifted and the Fund was able to access the local market, the holding in Lukoil PJSC (with a current FVP of zero) would represent 10% of the Fund and cash dividend of 1.7%. We continue to monitor the situation closely.










Composite analysis

Top 10 holdings (%)












	Weighting	1 month total return (%)*	
		Local terms	USD
Samsung Electronics	8.2	-3.0	+0.2
Embraer ADR	7.9	+1.1	+1.1
Petrobras ADR	6.9	+6.3	+6.3
Alibaba	6.6	+20.1	+20.6
Ternium ADR	6.5	+12.6	+12.6
Thai Beverage	6.2	+4.3	+6.2
Indofood	5.7	+2.5	+2.2
SK Square	5.7	+0.3	+3.6
Infosys ADR	4.9	+3.4	+3.4
ASE Technology	4.8	+1.8	+0.9

*Inclusive of portfolio activity.
All data as at 31 July 2023.
Source: Oldfield Partners.

Sector breakdown (%)

Information Technology	21.4	
Materials	17.2	
Consumer Staples	16.9	
Industrials	13.5	
Communication Services	11.4	
Consumer Discretionary	10.1	
Energy	6.9	
Financials	0.6	
Cash	1.9	

Country breakdown (%)

South Korea	24.8	
China/Hong Kong	18.7	
Brazil	14.8	
Indonesia	9.7	
Mexico	9.0	
Thailand	6.2	
India	4.9	
Taiwan	4.8	
Peru	4.5	
South Africa	0.6	
Cash	1.9	

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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. © 2023 Partnership No. OC309959.