



Oldfield Partners

Emerging Markets Investment Report

August 2015

Performance Summary

USD terms	Emerging Markets Equity Composite	Index*
August	-7.6%	-9.0%
2015 to date	-12.4%	-12.9%
1 year	-23.6%	-22.9%
3 years annualised	+0.3%	-2.4%
5 years annualised	-0.7%	-0.9%
Since inception**	+510.8%	+249.9%
Since inception annualised**	+13.1%	+8.9%

*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	8.5	-8.2%	-9.7%
SK Telecom	7.6	-4.9%	-4.9%
Embraer	7.6	-9.1%	-9.1%
Infosys	7.2	+1.3%	+1.3%
Yue Yuen Industrial	6.7	+10.1%	+10.1%

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

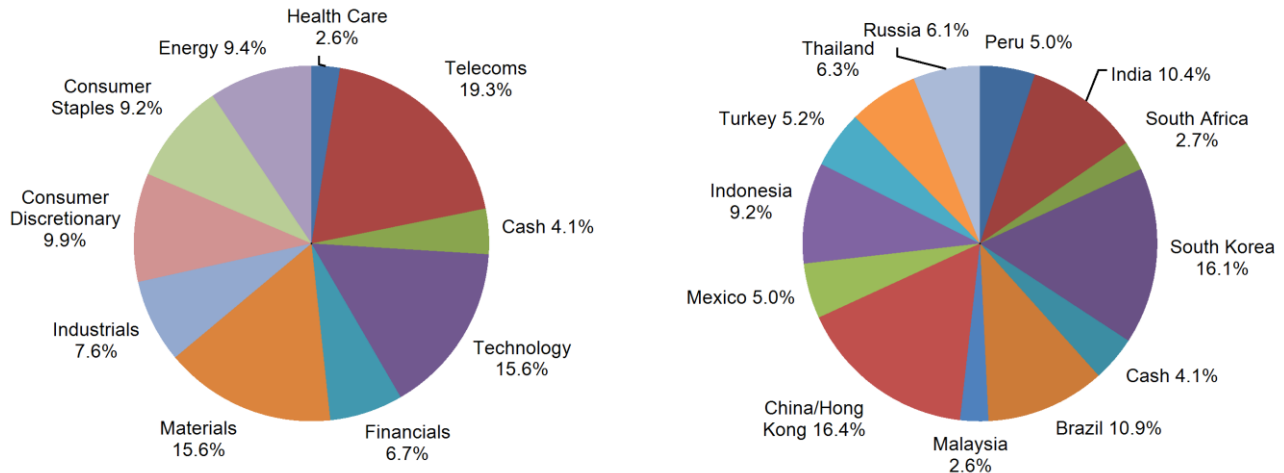
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Sector and country breakdown as at 31st August 2015



Source: Oldfield Partners.

Commentary

Emerging market equities continued to fall sharply in August. China remained a major cause of investor concern, as financial actions seem to be playing second fiddle to political policy – with its topsy-turvy actions in the stock market and now with the currency.

China allowed a minor devaluation of its currency against the US dollar. This looks to serve two purposes in showing that the government can act to prevent the currency being dragged higher in the future on a potential increase in US interest rates and additionally that China is not impotent against competitive devaluations globally by its competitors, and secondly as it takes another baby step towards internationalisation of the currency as a long term strategic goal by allowing a 'freer' float. The government for now looks to be more interested in promoting stability of the currency than in seeing a major devaluation, as it balances weaker economic growth from its old economic model with the policy of pivoting the economy towards the consumer, and has the financial resources to do so for a considerable time period. In general emerging market currencies saw sharp declines on the weaker Chinese currency and the nearing potential threat of the start of a US tightening cycle.

The valuation of the MSCI Emerging Market Equity Index is on a price to book ratio of 1.35, which is cheap and near the bottom of its longer term valuation history, if not at the distressed valuation levels occasionally reached in the past. The outflows from the asset class have now reached over \$45 billion year to date, and are at the levels seen in the panics of 2008 and 2011, and this is the third year of major outflows for the asset class.

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The worst performers during the month by contribution were First Pacific and Turkcell. **First Pacific** (Hong Kong diversified financial holding company) was under pressure from weaker Asian currencies, disappointing performance from its telecom investment, and weaker commodity prices. The company uses the US dollar as its reporting currency and holds its debt in US dollars (although not at a level to be of concern). The discount to net asset value widened to 55%. **Turkcell** (Turkish mobile provider) has seen the Turkish currency weaken substantially this year. The underlying business is performing well, the 4G auction process is complete, and industry competition is rational. The management will evaluate a 10% share buyback (subject to regulatory approval) to make better use of its balance sheet.

The top performers during the month by contribution were Yue Yuen and Infosys. **Yue Yuen** (Hong Kong footwear manufacturer) has performed well as the weakness in the Chinese and other Asian currencies where it has its manufacturing facilities can provide a near term boost to profitability, although with a time lag the cost plus model will pass savings on to clients. **Infosys** (Indian IT services) continues to benefit from positive investor sentiment towards the strategic initiatives of the new management, the weakness of the Indian currency, and a relatively positive backdrop in the US IT services industry.

Following the sharp share price falls seen over the summer the upside potential from the weighted average of our price targets in the portfolio is 70%.

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