



Emerging Markets Investment Report

August 2017 Newsletter

Oldfield Partners

Performance Summary

USD terms	Emerging Markets Equity Composite	Index*
August	+2.1%	+2.2%
2017 to date	+18.3%	+28.3%
2016	+31.7%	+11.2%
1 year	+17.9%	+24.5%
3 years annualised	+4.3%	+2.4%
5 years annualised	+8.4%	+5.3%
Since inception**	+806.2%	+387.3%
Since inception annualised**	+14.1%	+10.0%

*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	8.4%	-4.0%	-4.2%
Embraer	8.4%	+12.0%	+12.0%
Lee & Man Paper	8.0%	+9.6%	+9.4%
SK Telecom	7.6%	-6.9%	-6.9%
Buenaventura	6.9%	+9.7%	+9.7%

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

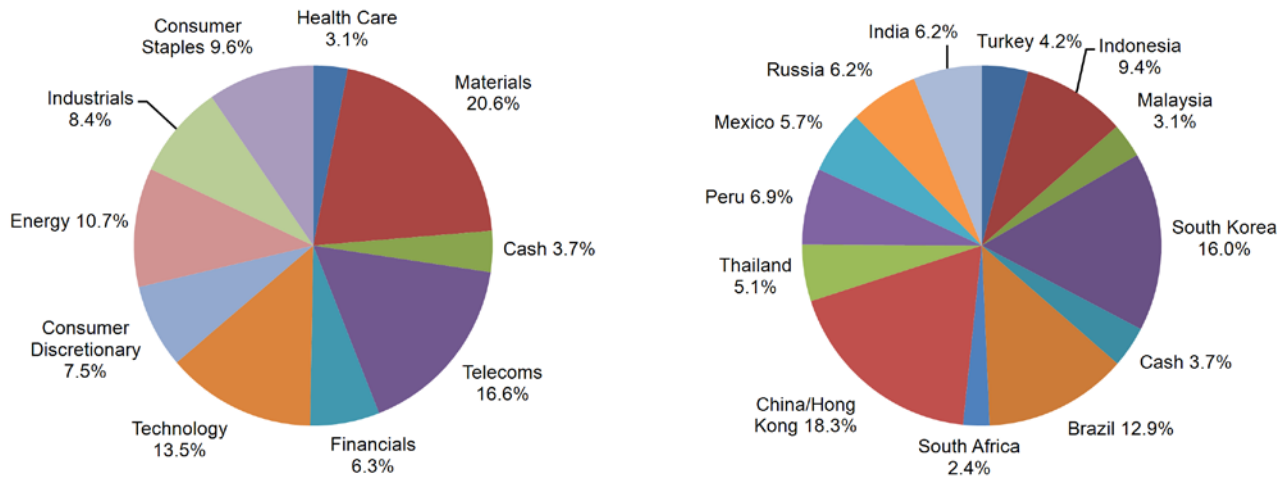
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Sector and country breakdown as at 31st August 2017



Source: Oldfield Partners.

Commentary

The year continues to see growth investing soundly beating value investing, and that is being driven by a handful of technology stocks on demanding valuations. The price to book ratio of the MSCI Emerging Markets Index is slightly below its longer term historic average. The weighted average of the price targets in the portfolio shows an attractive 39% upside.

The bottom performers by contribution were SK Telecom, Samsung Electronics, and Infosys. **SK Telecom** (South Korean mobile telecom provider) saw the regulator increase tariff discounts (from 20% to 25%) for new subscribers following a more aggressive stance taken by the new government. It is uncertain if the regulator has finished or just begun this round of negative measures for the industry. The stock trades on a price to book ratio of 1.2. **Samsung Electronics** (South Korean consumer electronics) saw co-vice chairman Lee sentenced to five years in prison, which had been expected. We still believe that the company is soundly managed by its divisional heads and the board. The stock trades on a price to book ratio of 1.7. Both our Korean stocks had a hit to sentiment from the increasingly provocative antics of North Korea. We see the likelihood of outright war as very low, but as tensions mount the possibility for error increases. The CEO of **Infosys** (Indian IT services) resigned as the dispute between the founders and the CEO reached its climax. The dispute revolved around management style, rather than strategic direction, but had become increasingly public and distracting. Whilst the search for a new CEO is on-going a former CEO and co-founder (and hugely respected by clients and the industry) will oversee the business. The stock trades towards the bottom end of its longer term historic valuation range.

The top performers by contribution for the month were Embraer, Lee & Man Paper, and Buenaventura. **Embraer** (Brazilian regional jet manufacturer) is in a transition period between generations of its regional jet offerings, which historically leads to a dip in business, but it is supported

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by a solid order book. The growth potential of the defence business is improving with the upcoming launch of a transporter plane (KC-390) that should garner international interest as well as domestic orders. The stock trades on a price to book ratio of 1.1. **Lee & Man Paper** (Chinese containerboard manufacturer) had strong first half results as industry consolidation due to environmental protection policies led to increased pricing power. Management remain upbeat on trading prospects heading into the second half. Despite the buoyant cycle there is limited new supply planned by the industry. **Buenaventura** (Peruvian miner) has benefited from the stronger gold and copper prices in the month. The stock trades on a price to book ratio of 1.2.

Total assets for the emerging markets strategy are now over US\$875m. Once the strategy reaches capacity at US\$1billion we will not accept additional capital, as was the case when we reached that level back in 2014. We are currently in the latter stages of due diligence with several large investors, so if you are interested in investing or adding to an existing holding, please contact us.

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