



Emerging Markets Investment Report

August 2018 Newsletter

Oldfield Partners

Performance Summary

USD terms	Emerging Markets Equity Composite	Index*
August	-5.3%	-2.7%
2018 to date	-9.5%	-7.2%
1 year	-2.9%	-0.7%
3 years annualised	+12.9%	+11.4%
5 years annualised	+6.2%	+5.0%
Since inception**	+779.5%	+384.0%
Since inception annualised**	+13.1%	+9.3%

*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.

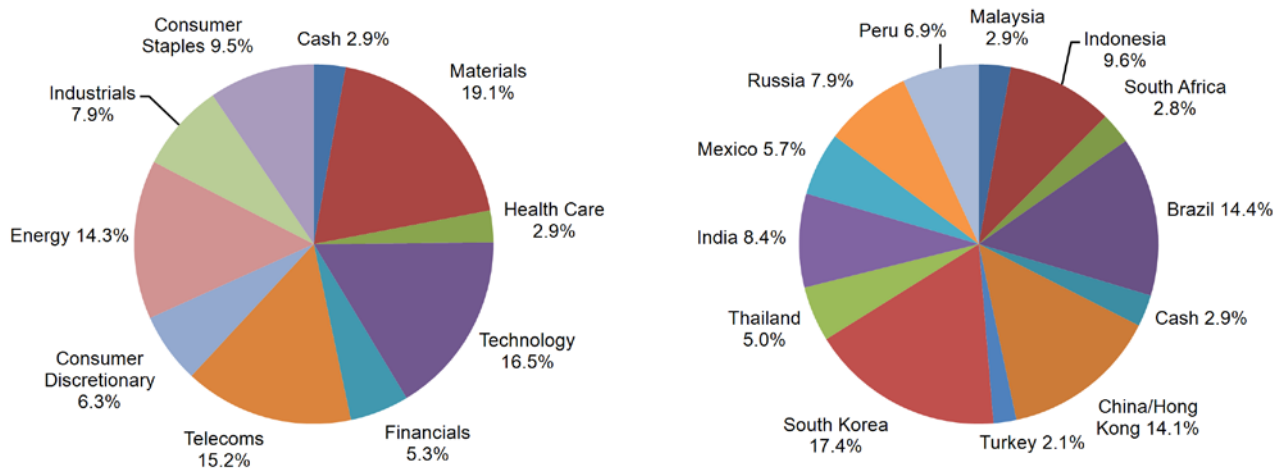
Performance of Five Largest Holdings*

Stock	Portfolio Weighting*	Monthly Performance (local terms)**	Monthly Performance (USD terms)**
Samsung Electronics	9.3%	+4.7%	+4.2%
SK Telecom	8.1%	+5.2%	+5.2%
Embraer	7.9%	-6.0%	-6.0%
Lukoil	7.9%	-3.9%	-3.9%
Infosys	7.2%	+2.9%	+2.9%

*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 31st August 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 54% upside.

The bottom performers by contribution in the month were Ternium and Turkcell. Both these stocks have been impacted by the broader macro-economic wobbles in their countries. **Ternium** (Latin American steel producer) has less than 20% exposure to Argentina but the already troubled economic situation there has taken a turn for the worse. The local currency has almost halved against the US dollar over the summer. Conversely, and more importantly, the issues in Mexico look to have been resolved with the Mexican and US authorities all but agreed on the NAFTA re-negotiations. **Turkcell** (Turkish mobile operator) is exposed to the unusual currency crisis in Turkey that has been greatly exacerbated by the unorthodox policy statements of the Turkish president tying the hands of the central bank. The local currency has almost halved against the US dollar over the last year. Turkcell is exposed to the dramatic fall in the local currency and loss of confidence in Turkish economic policy, but it is in a solid position regarding its own finances and able to price for inflation. We will continue to monitor the macro-economic and political volatility in Turkey.

The top performers by contribution in the month were Samsung Electronics and SK Telecom. **Samsung Electronics** (Korean consumer electronics) has been trading water for much of the year as investors judge the semiconductor cycle. We believe the share price already factors in a tough down cycle and so remain positive. A mild downturn in DRAM in 2019 would add confidence that the consolidated



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semiconductor industry is less cyclical than its past and focused on profit maximisation. **SK Telecom** (Korean mobile telecom operator) has seen a difficult period of regulatory activity for the sector as the new government sought to reduce tariffs. This is now passing as the telecom players have acceded to government demands and the industry can look forward to a calmer regulatory environment. SK Telecom has never been content just being a mobile telecom company and holds a 20% stake in **SK Hynix** (the second largest DRAM producer globally) that we believe can also benefit from the semiconductor cycle mentioned above.

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