

Emerging Markets – Composite

Patient, unconstrained, contrarian value investing

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Oldfield Partners

31 August 2022

Monthly composite review

Composite particulars

Launch date	01 January 2001
Comp. assets	US\$133.9m
Structure	Composite
Base currency	USD
Benchmark	MSCI Emerging Markets

“A concentrated portfolio concentrates the mind...”

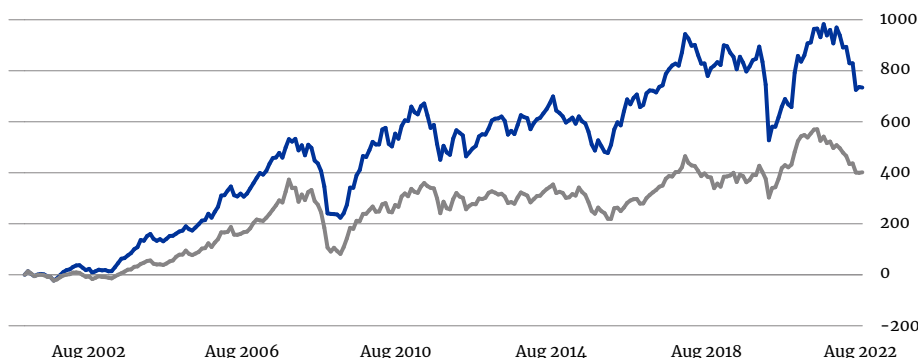
About Oldfield Partners

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
■ Emerging Markets Equity	-0.3	-22.0	-23.0	-2.4	-1.6
■ MSCI Emerging Markets	+0.4	-17.5	-21.8	+2.7	+0.6

Preceding five calendar years performance

	2021	2020	2019	2018	2017
Emerging Markets Equity	+11.6	-3.7	+7.8	-5.0	+26.8
MSCI Emerging Markets	-2.5	+18.3	+18.4	-14.6	+37.3

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

Central bankers reinforced signalling towards higher for longer interest rates until inflation data significantly slows towards target ranges. The MSCI Emerging Markets index was little changed on the month. Overall valuations look attractive but the challenging backdrop for emerging markets equities remains – most notably in China despite some efforts towards economic stimulus. Our focus remains on the business prospects of portfolio holdings, balance sheet strength and holdings' equity market valuations. The upside potential for the portfolio is over 90% as measured by the weighted average of the company price targets.

The bottom performers by contribution in the month were Ternium, Samsung Electronics and SK Hynix. **Ternium** (Mexican steel producer) benefits from superior profit margins in the steel sector and Mexico being a steel net importer. Mexican flat steel prices follow that of the US which have fallen near 25% since June. Management, during the early August results call, guided for near-term margins nearer the normalised range after exceptional strength more recently. The new low-cost Pesqueria mill's ramp-up is progressing well. With this support we expect margins to improve from near-term levels under normalised prices and costs. The stock trades at a valuation comfortably below its historical average and it has net cash on its balance sheet. **Samsung Electronics** (Korean consumer electronics manufacturer) and **SK Hynix** (Korean semiconductor manufacturer) share prices reacted to existing weak memory chip demand in the smartphone and PC sectors spreading to data centre providers. The DRAM sector, dominating earnings for both businesses, is consolidated amongst three major producers. We continue to see supply discipline through capex cuts and producer inventory built buffering margins during downcycles. However, demand cyclicality will remain inherent to the sector. Current elevated customer inventory levels, post the Covid-19 build-up and the present weak macro-economic outlook, are temporary factors suppressing demand. Memory producers share prices historically bottomed months in advance of chip prices. Although we cannot predict the timing of the cycle, both stocks are trading near valuation levels historically followed by strong returns.

The top performers by contribution in the month were Embraer and Petrobras. **Embraer** (Brazilian aircraft manufacturer) reported solid margin improvement during its quarterly results. Encouragingly management is keeping financial year guidance unchanged, despite cost and supply chain challenges. Growth in order backlog continued, representing three years in revenue. We recently wrote about the remarkable attractiveness of Embraer on a sum-of-the-parts basis. Its majority stake in EVE, a US listed short-range electric flight vehicle, trades near the market capitalisation of Embraer – this offers the traditional regional jet, business jet, and defence businesses for free. With the Brazilian general election weeks away **Petrobras** (Brazilian oil producer) continues to be a regular reference amongst opposing candidates. The company, however, continues to follow the international fuel price parity principle as protected under company bylaws. August has seen the latest quarterly dividend announcement. The dividend policy being tied to free cash flow, supported by higher oil prices and disciplined capex, resulted in substantial pay-outs.

Commentary - continued

Russian holdings

Please note that as of 3rd March 2022 the holding of Lukoil ADR will have a fair value price (FVP) of zero. This has been determined by our Valuation Committee. Lukoil ADR listed on the London Stock Exchange (LSE) was suspended from trading by the exchange on the morning 3rd March 2022. We will continue to monitor the situation daily and update accordingly.

Composite analysis

Top 10 holdings (%)

	Weighting	1 month total return (%)*	
		Local terms	USD
Telkom Indonesia	7.3	+5.4	+5.4
Embraer	7.2	+16.8	+16.8
Samsung Electronics	7.2	-2.8	-5.4
Thai Beverage	7.2	0.0	-1.0
SK Hynix	6.2	-2.8	-5.4
Petrobras	6.1	+13.8	+13.8
Indofood	5.8	-5.4	-5.3
Ternium	5.7	-13.0	-13.0
Alibaba	5.7	+1.3	+1.3
SK Telecom	4.5	-2.8	-5.4

*Inclusive of portfolio activity.
All data as at 31 August 2022.
Source: Oldfield Partners.

Sector breakdown (%)

Information Technology	24.0	
Consumer Staples	15.7	
Communication Services	14.1	
Materials	13.6	
Consumer Discretionary	9.9	
Industrials	7.2	
Energy	6.1	
Financials	4.8	
Cash	4.6	

Country breakdown (%)

South Korea	23.9	
China/Hong Kong	16.9	
Brazil	13.3	
Indonesia	13.1	
Thailand	7.2	
Mexico	5.7	
Taiwan	4.1	
Peru	3.5	
India	3.1	
Turkey	2.3	
South Africa	2.2	
Cash	4.6	

Oldfield Partners

11 Grosvenor Place
London, SW1X 7HH
United Kingdom

Telephone: +44 (0) 20 7259 1000
Email: info@oldfieldpartners.com
www.oldfieldpartners.com

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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. © 2022 Partnership No. OC309959.