Emerging Markets - Composite

Patient, unconstrained, contrarian value investing

Oldfield Partners

31 October 2022

Monthly composite review

Composite particulars

Launch date	01 January 2001
Comp. assets	US$121.3m
Structure	Composite
Base currency	USD
Benchmark	MSCI Emerging Markets

"A concentrated portfolio concentrates the mind..."

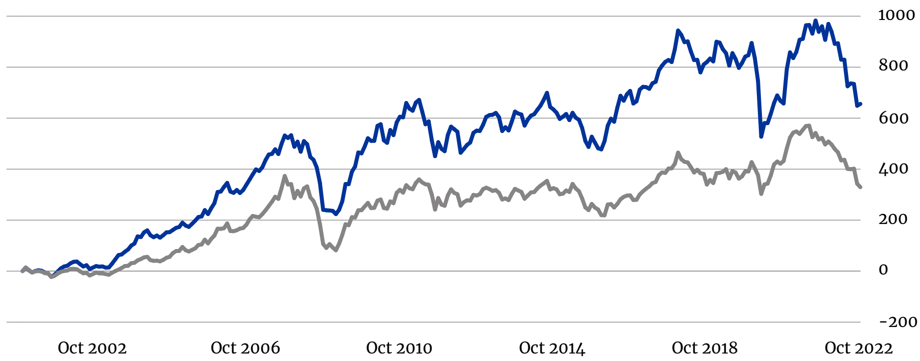
About Oldfield Partners

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	Annualised 5 years
Emerging Markets Equity	+1.0	-29.3	-28.7	-7.1	-4.0
MSCI Emerging Markets	-3.1	-29.4	-31.0	-4.4	-3.1

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

The backdrop for emerging market equities remains difficult heading into the year-end. The slowing of all the major economies together – notably the US, Europe, and China – with a strong US dollar, stubborn inflationary pressures, and geopolitical fragmentation and discord. That said the valuations already reflect the difficult global economic backdrop and emerging market equities are enduring a particularly lengthy bear market. The upside potential for the portfolio is 100% as measured by the weighted average of the company price targets in the portfolio. This potential upside has only been on offer when times are troubled, such as in the 2008/9 financial crisis and the 2020 Covid sell-off.

Following the Chinese Communist Party Congress where President Xi cemented his control over the country for all to see it would seem time for a policy aimed at boosting the flailing Chinese economy. To our mind a popular and sensible move would see a focus on the depressed Chinese consumer, and a measured move towards ending the harsh Covid Zero policy might initially be the easiest route to achieve this. Our exposure to China is focused on the Chinese consumer.

The bottom performers by contribution in the month were Alibaba, Yue Yuen and LG H&H. It is notable that these are direct or indirect exposures to China and the Chinese consumer. **Alibaba** (Chinese e-commerce and cloud provider) continues to be affected by a seemingly perfect storm of political, macro-economic and competitive factors. Rolling lockdowns in China and consumer sentiment affected by a weak property market have depressed consumer spending and led to logistics disruptions, slowing growth in the merchandise value sold on the Alibaba platforms. Alibaba has lost some market share in the highly competitive Chinese online market. The focus has changed, for Alibaba, from growing the number of active users to retaining high value recurring users. The company is engaging in self-help by cutting costs and has committed to repurchase $25bn of stock over the coming couple of years (over 10% of the market capitalisation). The market valuation of the company is highly attractive on a sum of the parts basis, notably with net cash approaching one third of its market capitalisation. **Yue Yuen** (Chinese athletic shoe manufacturer) is the world's largest producer of athletic shoes and a core supplier for brands such as Nike and Adidas. It operates a cost-plus model, working closely with brands in design and prototyping. Having migrated its production facilities to lower-cost locations such as Vietnam and Indonesia, only 10% of production remains in China. Lockdowns, in addition to weak Chinese consumer spending, do however affect its retail subsidiary Pou Sheng's operations in China. Pou Sheng's robust online presence partly mitigates significantly reduced footfall in its retail outlets. It is working with brand partners in reducing inventory, and reduced store count in favour of larger 'experience-based' stores following its omni-channel model of closer integrating online/offline sales channels. The stock trades at six times forward earnings and the balance sheet is robust. **LG H&H** (Korean consumer products manufacturer) is exposed to China lockdowns through its key cosmetics division. The flagship Whoo brand has seen its sales to this key Chinese market significantly disrupted by lockdowns and travel restrictions

Commentary - continued

limiting the sale of product through duty-free stores. Chinese cosmetics sales rose markedly in June this year after the ending of Covid lockdowns in Shanghai and Beijing, providing some evidence of the sales recovery potential when measures are relaxed.

The top performers by contribution in the month were Embraer, Samsung Electronics and Turkcell. **Embraer** (Brazilian aircraft manufacturer) added to its regional jet order book during the month, representing over three years of revenue. Total order backlog amount has returned to the highest level since before Covid, boding well for the medium term. Comments from the company during the month on its business jet division point to continued stability in the sector, albeit a cooling from the extremely strong demand precipitated by the Covid pandemic. Embraer is in an enviable position being the sole remaining provider of regional jets into the key US market. We have written before on EVE, its electric flight vehicle, that continues to do well, and its market capitalisation remarkably now comfortably exceeds that of Embraer (its majority owner). **Samsung Electronics**(Korean consumer electronics manufacturer) quarterly results during the month confirmed a severe memory semiconductor downcycle. This stems from excess customer inventory built following pandemic shortages, and particularly weak demand from customers selling products into consumer related end markets. Contrary to the other two main players in the DRAM sector cutting capital expenditure by 30% and 50%, Samsung is not reducing and so hopes to gain a competitive advantage. Its display, smartphone and semiconductor foundry businesses are performing well – a source of diversification not available to its two main competitors. Nonetheless, its 2023 memory production growth will be limited, like the overall sector. Sector supply discipline should precipitate supply-demand recovery, possibly in DRAM by the second half of next year. Structural demand trends continue to be strong as memory content growth per device compliments new demand sources such as artificial intelligence (AI). The valuation at 1.2 times price to book has historically provided an attractive entry point. **Turkcell** (Turkish mobile telecom provider) has been able to negotiate the difficult economic conditions in Turkey well in respect to the high level of inflation. It can price for inflation and has been successful at passing on inflationary pressures this year. It has a successful hedging strategy and continues to employ lessons learnt from previous troubled economic times.

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 (%)

		1 month total return (%)*	
	Weighting	Local terms	USD
Embraer	7.9	+22.9	+22.9
Telkom Indonesia	7.4	-3.6	-3.6
Samsung Electronics	7.4	+12.4	+13.1
Thai Beverage	6.9	-4.2	-2.8
Indofood	6.2	+7.1	+4.3
Petrobras	6.0	+3.9	+3.9
Ternium	5.9	+5.1	+5.1
SK Hynix	5.5	-0.2	+0.4
Buenaventura	5.0	+3.1	+3.1
Alibaba	4.5	-20.5	-20.5

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

Sector breakdown (%)

Information Technology	23.8
Consumer Staples	15.4
Materials	14.9
Communication Services	14.8
Industrials	7.9
Consumer Discretionary	7.6
Energy	6.0
Financials	4.1
Cash	5.6

Country breakdown (%)

South Korea	22.8
Brazil	13.9
Indonesia	13.7
China/Hong Kong	13.6
Thailand	6.9
Mexico	5.9
Peru	5.0
Taiwan	4.0
India	3.7
Turkey	3.0
South Africa	2.1
Cash	5.6

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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.