



Emerging Markets Investment Report

December 2017 Newsletter

Oldfield Partners

Performance Summary

USD terms	Emerging Markets Equity Composite	Index*
December	+5.6%	+3.6%
2017	+26.8%	+37.3%
2016	+31.7%	+11.2%
3 years annualised	+11.7%	+9.1%
5 years annualised	+7.6%	+4.3%
Since inception**	+871.5%	+421.5%
Since inception annualised**	+14.3%	+10.2%

*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	8.8%	+0.1%	+1.9%
Embraer	8.6%	+25.4%	+25.4%
SK Telecom	7.5%	+1.7%	+1.7%
Lukoil	7.1%	+5.2%	+5.2%
Buenaventura	6.8%	+0.7%	+0.7%

*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.

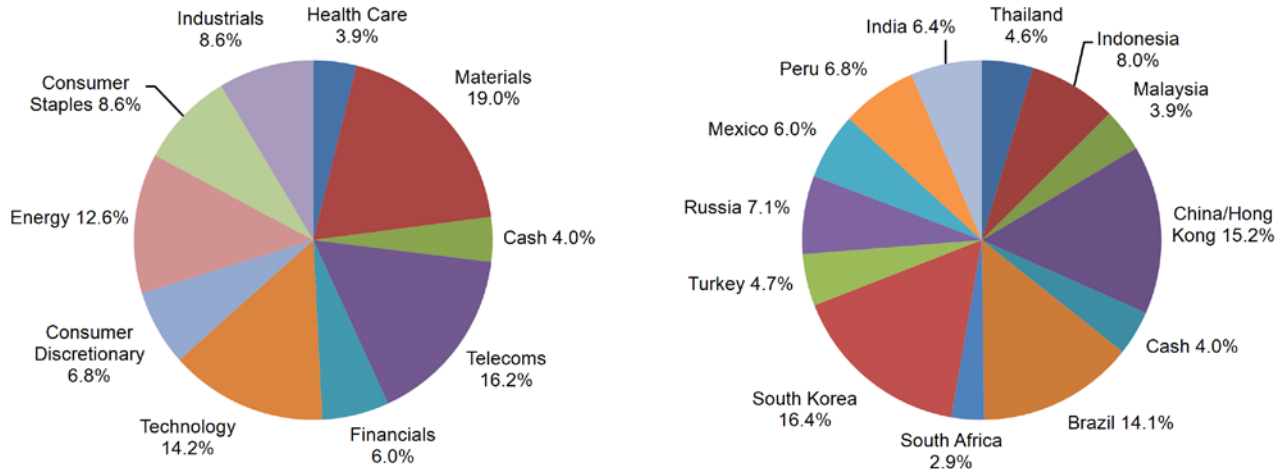
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Sector and country breakdown as at 31st December 2017



Source: Oldfield Partners.

Commentary

We continue to see the valuation differential between growth stocks and value stocks in emerging market equities as stretched against history. The year was defined by the strong performance of a handful of Chinese internet stocks, of which we were absent due to their high valuations. The portfolio did keep pace with the MSCI Emerging Markets Value Index over the year. It is comforting to see that overall the valuations in emerging market equities remain reasonable and that the weighted average of the price targets in the portfolio shows an attractive 37% upside.

The bottom performers by contribution in the month were Eros, First Pacific and Thai Beverage. **Eros International** (Indian Bollywood media company) continues to grow its Eros Now platform and believes that the majority of its revenues will come from digital in a few years. The opportunity is significant with a growing middle class, increasing demand for media, and smartphone penetration increasing rapidly. The company raised \$100 million in the month to fund growth and repay debt. **First Pacific** (Hong Kong listed financial holding company) has been impacted by the poor performance of its largest holding. **PLDT** (telecom provider in the Philippines) heard news that the Philippine government had invited Chinese telecoms to enter the cosy two player market. This may go nowhere but the government is repeatedly keen to encourage another player. **Thai Beverage** (largest alcoholic beverage company in Thailand) has bought 54% of Sabeco, an alcoholic beverage company, in Vietnam to increase its exposure to the country. This is a sizeable acquisition for Thai Bev, and should allow Thai Bev to cross sell its products into Vietnam, but the valuation was enough to deter most foreign players.

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The top performers by contribution for the month were Embraer, Top Glove and JSE. **Embraer** (Brazilian regional jet manufacturer) received interest from Boeing for a possible combination or takeover of the company. Embraer is the largest position in the portfolio following a recent addition and the share price rose 22% on the day of the announcement. The Brazilian government holds a golden share in Embraer giving it final say over any substantial deal, and has voiced concerns about national interest over the defence business. Boeing and Embraer already have some joint ventures and Embraer's regional jets would slot in nicely below Boeing's line up, and be a rebuff to the Airbus/Bombardier deal. This is at an early stage and sensitive discussions are ahead, but a tie-up with Boeing could be very positive for Embraer. If discussions fail we still see Embraer as an attractively valued stand-alone company with 46% upside to price target. **Top Glove** (Malaysian rubber glove producer) continued to perform well following its strong first quarter results and an acquisition that increased its exposure to surgical gloves, which are more specialised and higher margin than standard gloves. **JSE** (South African stock exchange) reacted well to the South African ANC elections and the hope of a calmer period for the country. We recently heard in a meeting with the CEO that she had been spending significant time on 'national duty' around the election period and the hope is now that this energy can be directed to the company.

Total assets for the emerging markets strategy are now slightly over US\$1billion, which is our capacity limit. If you are interested in making a new investment or adding to an existing holding, we therefore request that you contact us to discuss this.

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