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Oldfield Partners

Emerging Markets - Composite

Patient, unconstrained, contrarian value investing

Quarterly Newsletter | Q4 2023

Composite particulars

Manager(s)	Tom Taylor Charles Sunnucks
Launch date	01 January 2001
Comp. assets	US$243.4m
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.

All data as at 31 December 2023.
Source: Oldfield Partners.

Composite performance (%)

	1 month	QTD	YTD	1 year	3 years (Annualised)	5 years (Annualised)	Launch (Annualised)
Fund	+7.4	+13.0	+20.8	+20.8	+2.2	+2.1	+10.6
MSCI Emerging Markets	+3.9	+7.9	+9.8	+9.8	-5.1	+3.7	+7.5

Preceding five calendar years performance	2023	2022	2021	2020	2019
Fund	+20.8	-20.9	+11.6	-3.7	+7.8
MSCI Emerging Markets	+9.8	-20.1	-2.5	+18.3	+18.4

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.

Portfolio breakdown

Top 10 holdings (%)

	Weight	MTD*	QTD*
Samsung Electronics	8.5	+8.3	+19.9
Buenaventura ADR	8.3	+59.7	+78.9
Embraer ADR	7.8	+5.5	+34.5
Petrobras ADR	6.7	+4.9	+20.7
SK Square	6.2	+3.6	+28.9
Ternium ADR	5.8	+7.4	+9.6
ASE Technology	5.5	+7.9	+29.9
SK Telecom	5.4	-3.6	+1.1
Infosys ADR	5.1	+4.7	+8.6
Thai Beverage	5.1	+6.5	-5.4

*Total return in USD, reflects ownership period.

Country breakdown (%)

South Korea	22.7
China/Hong Kong	15.0
Brazil	14.6
Mexico	9.7
Indonesia	9.2
Peru	8.3
Taiwan	5.5
India	5.1
Thailand	5.1
Cash	4.8

Characteristics

	Fund	Benchmark
P/E ratio (fwd)	11.2	11.7
P/B ratio (hist)	1.5	1.6
Gross div. yield (fwd)	3.9	3.1
Active share (%)**	90.8	

**Active share is calculated using the sum of the absolute value of the differences of the weight of each holding in the manager's portfolio versus the weight of each holding in the MSCI Emerging Markets index, divided by two.

Sector breakdown (%)

Information Technology	21.7
Materials	20.2
Industrials	14.0
Communication Services	12.8
Consumer Staples	12.0
Consumer Discretionary	7.6
Energy	6.7
Cash	4.8

Fund manager commentary

At the headline level, there have been several events influencing activity in Emerging Markets during the quarter. These include the conflict in Israel and its effect on Red Sea trading routes, plus a transformative election in Argentina. For further information on these events and their impact on the fund, please refer to the NewsInFocus updates on the Oldfield Partners website. COP28 also enjoyed plenty of attention during the quarter, but beyond a handful of interesting insights, outcomes were largely more bark than bite.

The composite returned 13.0% over the quarter. This is compared to a return of 7.9% for its benchmark, the MSCI EM Index. Within this, there have been many moving parts. Emerging markets may all share similar opportunities and risks that drive their long-term development path, but equally have very different paths to get there.

At the holding level, top contributors to performance were Embraer, Buenaventura and SK Square/Samsung. Detractors were Alibaba, LG H&H and Thai Beverage.

Embraer was the single greatest contributor. The company is an aircraft development and manufacturing firm, based in Brazil but largely selling into global markets – namely the US. The firm had hit a severe valuation discount due to the scuppering of an expected deal with Boeing and downturn in demand due to Covid. In 2023 however, Embraer has demonstrated that these were transitionary setbacks. The valuation remains compelling, especially if compared to global peers, and as such it remains a significant holding within the fund. Beyond the core business on which our valuation is based, the firm also has a majority holding in EVE. EVE is a US listed entity developing electric powered aircraft for short passenger flights – the actual aircraft looks much like a large drone. While EVE is not profitable, and will likely not be for some time, it is a leading player in a market that is forecasted to be large in size. This is evidenced by the firms already substantive and growing international orderbook. As the technology and regulatory hurdles are met, the value of EVE will be added to the Embraer base valuation.

Buenaventura - a Peruvian gold, silver and copper minor - also contributed positively to the funds return. The firm has been trading a significant discount to similar companies globally, despite its good operating assets, including a holding in the Cerro Verde mine. The catalyst for the strong performance was an investment in the firm by Antofagasta, a big industry name (London listed). Antofagasta trades at nearly double the valuation of Buenaventura, and as such it should be value accretive for Antofagasta shareholders. The move is positive for Buenaventura, not least as it raises awareness to the extent that Buenaventura is undervalued, there is also however an operational benefit that comes from having the backing of the industry heavyweight.

SK Square made a positive contribution to performance over the quarter, its performance contribution equal to that of Korean peer Samsung. SK Square is a Korean holding firm, with listed semiconductor firm SK Hynix accounting for the majority of its NAV. Holding companies typically trade at a discount to their NAV, and Korean holding companies trade at a wider discount to NAV than global peers due to governance concerns. The discount on SK Square is however extreme, even by Korean standards. Furthermore, while most holdings firms trade at a discount due to uncertainty around the valuation of private market holdings, SK Hynix is large, listed and liquid making the NAV far less opaque than the typical holding company. The discount may have narrowed at the margin, but we still believe that this is an exceptionally 'cheap' way to access the upcycle within the semiconductor space.

The detractors in 2023 were led by LG H&H – the company is covered in Portfolio Changes below. Alibaba, a Chinese online commerce firm, also detracted from the performance. Alibaba enjoyed an exceptional run in the late 2010's, before then starting a long descent down after a government crackdown on certain online practices in late 2020. This downturn in the share price has been compounded by market share loss to new industry incumbent PDD. We however remain confident in the valuation case for Alibaba. The business continues to grow, has a substantive cash position, is highly cash generative, and the firm is still a leader across its core markets. Importantly, there has also been a large improvement in corporate governance, and the firm is now far more focused on shareholder returns, executing large share buybacks and initiating a dividend policy.

Thai Beverage has been another detractor to performance. Operating out of Thailand, but also selling in Vietnam and Myanmar, the firm has a number of leading alcoholic beverage brands, including the beer brand Chang. The challenges for the firm have been twofold. Foremost, has been high input prices putting downward pressure on margins – a phenomena that has been evident across alcohol names globally. The secondary headwind has been soft consumer demand in Thailand, and a weak Vietnam. While Vietnam enjoys excellent long-term structural growth prospects, the economy has proven to be volatile. This is largely a consequence of big swings in the domestic property market. The latest cycle was prompted by a crackdown on corruption, creating an uncertainty that has spread into the real economy, effecting confidence. This affects Thai Beverage, as the firm has a majority holding in Sabeco, owner of Saigon Beer, a leading beer brand in Vietnam, and sales have suffered due to the soft macro. Both these factors we consider transitional, and we remain confident in the valuation case for Thai Beverage.

Portfolio changes

During the fourth quarter, the fund position in LG H&H was exited. The firm is a Korean beauty product company which had enjoyed great success in the 2010's due to its hugely popular History of Whoo brand. The firm was then hit by several headwinds which put substantive downward pressure on its valuation – namely the loss of a key account leader effecting the online sales channel, and Covid limitations on travel to Korea stunting a recovery in department store sales. At the time of purchase, the firm was trading at a valuation well below developed market equivalents and its own traded history, with its challenges believed to be largely transitionary. We were however wrong. The road to recovery has been longer and deeper than expected, plus with the surging popularity of some local brands, the path to success for LG H&H is now narrower. There is a chance that the firm will recover, and with it the valuation improves, but at this point we find better opportunities elsewhere.

Outlook

We remain confident that at a holdings level there remains considerable overlooked value across the portfolio. Over the past decade, emerging markets have performed severely behind developed markets, and this has bifurcated valuations, creating compelling opportunities for bottom-up investors.

In terms of 'what could go wrong', at the company level, each holding has its own idiosyncratic risks, although these risks vary in form and degree. At the 'macro' level, key areas that we continue to monitor include the extent that China policy makers maintain control of rebalancing the economy; the possibility of new conflict arising or spreading; and the changing demand outlook for developed markets. The elections in the US will also likely play a significant role effecting overall market confidence. The world may be becoming increasingly multipolar, but the US is still the single largest cog when it comes to global economic activity.

Beyond the high-level figures, there is a complex melting pot of opportunity and risk. It is an exciting time to be an active value investor, and importantly, based on our valuation analysis there remains a high level of upside to the fund's positions. A good starting point to enter the year. We however remain long-term patient investors, and as such shy away from grand annual predictions. What we can however note is that 2024 will no doubt have its share of surprises, and valuations are at a level that has been historically indicative of strong positive subsequent returns.

Russian holdings

Please note that on 3rd March 2022 the Fund's investment in Lukoil ADR listed on the London Stock Exchange (LSE) was suspended from trading. Our Valuation Committee considered it was in the Fund's best interests that the holding of Lukoil ADR be fair value priced (FVP) at zero. In June 2022, we elected for the holding to be converted into local shares (Lukoil PJSC).

Given the current international sanctions on Russian securities and cash balances, we believe that if lifted and the Fund was able to access the local market, the holding in Lukoil PJSC (with a current FVP of zero) would represent 11% of the Fund and cash dividend of 2.4%. On 22nd August 2023 a Reuters article suggested that Lukoil was planning to repurchase 25% of its shares from foreign shareholders. The repurchase price would be at least a 50% discount from the quoted price. We continue to monitor the situation closely.

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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. © 2023 Partnership No. OC309959.