# Emerging Markets - Composite

**Patient, unconstrained, contrarian value investing**

Oldfield Partners

Quarterly Newsletter | Q4 2024

## Composite particulars

| | |
|---|---|
| Manager(s) | Tom Taylor<br>Charles Sunnucks |
| Launch date | 01 January 2001 |
| Comp. assets | US$141.0m |
| 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 2024.
Source: Oldfield Partners.

## Composite performance (%)

| | | | | | Annualised | | |
|---|---|---|---|---|---|---|---|
| | 1 month | QTD | YTD | 1 year | 3 years | 5 years | Launch |
| Fund | -3.6 | -10.1 | +1.9 | +1.9 | -0.9 | +0.9 | +10.2 |
| MSCI Emerging Markets | -0.1 | -8.0 | +7.5 | +7.5 | -1.9 | +1.7 | +7.5 |

| Preceding five calendar years performance | 2024 | 2023 | 2022 | 2021 | 2020 |
|---|---|---|---|---|---|
| Fund | +1.9 | +20.8 | -20.9 | +11.6 | -3.7 |
| MSCI Emerging Markets | +7.5 | +9.8 | -20.1 | -2.5 | +18.3 |

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.**

## Portfolio breakdown

### Top 10 holdings (%)

| | Weight | MTD* | QTD* |
|---|---|---|---|
| Embraer | 7.1 | -4.1 | +3.8 |
| Alibaba | 6.3 | -1.3 | -25.1 |
| Yue Yuen Industrial | 5.8 | +0.2 | +17.3 |
| Samsung Electronics | 5.6 | -7.4 | -22.8 |
| Indofood | 5.5 | -0.7 | +1.7 |
| Trip.com | 5.4 | +6.4 | +9.9 |
| SK Square | 5.3 | +1.8 | -12.8 |
| ASE Technology | 5.3 | +6.0 | +3.7 |
| SK Telecom | 5.2 | -15.2 | -11.2 |
| Thai Beverage | 5.2 | -5.5 | -4.5 |

*Total return in USD, reflects ownership period.

### Country breakdown (%)

| | |
|---|---|
| China/Hong Kong | 27.6 |
| Brazil | 17.0 |
| South Korea | 16.1 |
| Indonesia | 10.5 |
| Mexico | 5.8 |
| Taiwan | 5.3 |
| Thailand | 5.2 |
| India | 5.2 |
| Peru | 3.5 |
| Cash | 3.8 |

### Characteristics

| | Fund | Benchmark |
|---|---|---|
| P/E ratio (fwd) | 7.6 | 13.1 |
| P/B ratio (hist) | 1.1 | 1.8 |
| Gross div. yield (fwd) | 4.8 | 2.6 |
| Active share (%)** | 92.8 | |

**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 (%)

| | |
|---|---|
| Consumer Staples | 20.9 |
| Consumer Discretionary | 17.4 |
| Information Technology | 16.0 |
| Communication Services | 14.0 |
| Industrials | 12.4 |
| Materials | 9.3 |
| Energy | 4.4 |
| Health Care | 1.8 |
| Cash | 3.8 |


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## Fund manager commentary

The final quarter of 2024 was eventful, both for portfolio holdings and more broadly across capital markets. Never a dull moment. At the headline level the two key events affecting conditions were both political - the outcome of the US election, and then the brief enforcement of Martial Law in Korea.

In the case of the US election, we published a November insight piece titled "US Elections – Implications for Emerging Market Equity". To summarise, US growth prospects aside, operationally the new administration is a net negative for the majority of Emerging Market corporates due to the now heightened downside uncertainty arising from trade conflicts. Yet it's interesting to note that there was considerable compromise during Trump's last term, and indeed there were both countries and industries within EM that notably benefitted from the shake-up. In the year following Trump's 2016 election win, Emerging Markets rallied 37%, the best year in a decade. Valuations were at the time low, a reminder, that however intriguing or difficult the politics may be, the prime determinant of long-term returns is valuation. Going into Trump's second term, valuations are broadly even lower, particularly at some of the individual market and stock levels.

While democracy was at work within America during the quarter, Korea experienced an insurrection. The Korean peninsula has never been short of political drama, be it the stable instability of 'Rocket Man' in the North, or political theatrics in the South. The implementation of Martial Law, however, took us by surprise. The country had completed legislative elections for the 300 members of the National Assembly earlier in the year, with a result that pitted President Yoon Suk-Yeol of the People's Power Party (PPP), against the National Assembly with its majority Democratic Party of Korea (DPK). In a bizarre move of political short-sightedness, President Yoon attempted to unblock the policy gridlock by declaring Martial Law to "protect" liberal democracy from anti-state forces. The manoeuvre was quickly overturned within the day, and President Yoon Suk-Yeol was impeached. An election is now likely in 2025.

**Performance**

The final quarter of the year was a punishing one in terms of performance. The headline MSCI EM index declined 8.0%, with a particularly large falls in Brazil and Korea, where the MSCI country indexes declined almost 20%. This was an especially painful backdrop for the strategy, as these two markets represented the two most substantive overweight's relative to the MSCI EM index. The strategy declined 10.1%.

For the year as a whole, the strategy return has lagged its benchmark. Breaking that down, in terms of relative attribution, the stock selection has been strong, but asset allocation a serious headwind. By geography, the low asset allocation exposure to India and Taiwan, in preference for Korea and Brazil, was a large detractor.

Key positive contributors to performance were Yue Yuen, Trip.com and First Pacific; key negative contributors were Hapvida, Orbia and Alibaba. In the case of industrial footwear manufacturer Yue Yuen, profitability continued to recover as the inventory cycle turned more favourable. The firm is HK domiciled, but largely producing out of Indonesia and Vietnam, and prone to be cyclical. We trimmed back the holding during the period to manage sizing relative to conviction; however, it retains its position in the strategy due to the high through-cycle dividend yield and ongoing prospects of income growth as the recovery continues.

In the case of the most material detractor, Brazilian healthcare service provider Hapvida, the share price roughly halved. This was due primarily to the policy change around contract pricing, but also against a backdrop of investors exiting the Brazilian market (the MSCI Brazil is down nearly 30% over the past 12months). We believe the change in policy does detract materially from the through-cycle valuation, but the extent of the market reaction has meant that this is already more than reflected in the valuation. Ultimately while we have examined a worst-case scenario, Brazil has an underfunded and overburdened public system which will require market-friendly support from the private sector. The proposed contract pricing policy is still in consultation with stakeholders, and in our view likely to get diluted through the process. Even if not, however, there remains an attractive valuation case for a recovery.

**Positioning**

There were several position adjustments through the quarter. The most meaningful one was the reduction of SK Telekom in order to add to Telkom Indonesia. Operationally real through-cycle growth will likely be meagre for Telkom Indonesia, albeit with gradually rising profits due to improved data pricing off an exceptionally low base. In terms of valuation, the stock dropped approximately 31% in 2024. It is now on near to its trough valuation, and due to industry consolidation, it is operationally at a point where it's through-cycle prospects have improved.

During the quarter, the position in Samsung was increased by reducing the weights in Embraer, Indofood and SK Square. Samsung has had a difficult year in terms of operational performance – its logic chip fabrication facilities are still loss-making and it was slow to develop a competitive high-bandwidth memory chip. These are, however, largely transitory issues in the context of its long-term valuation, and ultimately with R&D expenditure consistently around $20bn each year (within the top 10 globally for corporates), we feel comfortable looking through this period. In terms of all the all-important valuation case, the firm now is trading at an extreme low relative to history, historically indicative of strong subsequent returns.

**Outlook**

At a headline industry level we are seeing some of the most exciting opportunities in staples (low operational volatility), and industrials (higher operational volatility). This provides a good diversity of ideas across those that are more and less operationally volatile. In all the excitement over high-growth names, these two sectors have been largely overlooked in the commotion, and have proven fertile ground for bottom-up stock-picking.

In terms of geography, despite the backdrop in Korea, we remain confident in the equity market prospects there. Ultimately, for all the political chaos, approximately two-thirds of companies in the Korea Kospi Index are now below book value, making it one of the cheapest equity markets globally, and subsequently highly attractive for the long-term value investor.

The rupturing of valuation levels between individual emerging markets has simultaneously created both pockets of excess and regions of heavily overlooked through-cycle value. Indeed, the radical decoupling between markets makes it a gripping time to be an active value investor. We remain long-term and patient, shying away from grand annual predictions. What we can note, however, is that the holdings within the strategy are at a valuation level that has been historically consistent with strong positive forward returns, and we are excited about the years ahead.

**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 2.8%. 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. 