Oldfield Partners LLP
Emerging Markets Investment Report
December 2008

Performance Summary as at 31st December 2008

US$ terms	Emerging Markets Equity Composite	MSCI Emerging Markets (NDR)
December	-0.3%	+7.8%
2008	-46.6%	-53.3%
2007	+32.0%	+39.4%
2006	+30.9%	+32.2%
2005	+35.9%	+34.0%
2004	+14.1%	+25.6%
2003	+101.4%	+55.8%
2002	+5.9%	-6.2%
2001	+10.8%	-2.6%
Since Inception*	+237.8%	+105.9%
Since inception pa*	+16.4%	+9.4%

* Inception 01 Jan 2001
Performance figures are of the Emerging Markets Equity Composite, calculated on a total return basis inclusive of dividends.
Source: Rawlinson & Hunter, Alta Advisers Ltd, Oldfield Partners LLP, MSCI © and Bloomberg.

Commentary

Emerging markets had a year end rally, which has spilled over into the early trading days of the New Year. We underperformed the index in December. We see continued volatility in 2009, as investors weigh up the benefits of stimulus packages and low valuations, against the subdued global economic back-drop and poor news flow in the forthcoming earnings season.

Emerging markets in US dollar terms were down 54% in 2008, the largest fall since the MSCI benchmark was created. This brings the index back down to levels last seen in 2005, and wipes out much of the bull run since 2003. This leaves emerging markets trading at a 20% discount to the MSCI World index price earnings ratio of 11. On historic valuation metrics the asset class is in attractive territory.

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We expect corporate governance lapses and corporate failures to be part of the news flow for 2009. Avoiding the land-mines will be as important as picking the stellar outperformers. The market presents us with the opportunity to carefully accumulate some of the best companies in developing markets at attractive prices. The long term growth drivers for emerging markets, such as urbanisation and population growth, remain intact.

Our strategy is to continue to favour companies with strong franchises and solid business models. This includes looking to add ‘world class’ assets of out of favour cyclical stocks, where we have comfort that the valuation is sufficiently low. We bought **Gazprom** (Russian gas) in December which holds approximately 20% of the world’s gas reserves. These reserves are valued at 50 cents per barrel of oil equivalent and the company is at three times earnings.

Two of the worst performers (by contribution) in the month were Eros (Indian film producer) and First Pacific (Hong Kong listed holding company). We met the management of **Eros** following their superb year end results and are confident of the outlook for this holding. Eros trades on a historic price earnings ratio of five. **First Pacific** is trading at a 60% discount to its net asset value, which we feel is unjustified even in these unusual markets.

Two of the best performers were Chaoda Modern (Chinese agriculture) and SK Telecom (Korean mobile). **Chaoda Modern** was a significant relative outperformer in 2008, as a beneficiary of continuing Chinese urbanisation, yet it trades on a price earnings multiple of six. **SK Telecom** has solid cash flows driven by its market leading franchise. We feel 2009 could see the irrational marketing war in Korea’s mobile market subside to the benefit of SK Telecom.

The portfolio is a concentrated list of holdings we believe in and at cheap valuations. There are 17 holdings at month end. The average price earnings ratio is eight, the price to cash flow ratio seven, and the dividend yield over 4%.

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