

OLDFIELD PARTNERS LLP

OVERSTONE EMERGING MARKETS EQUITY FUND

JANUARY 2013 NEWSLETTER 51

Fund Summary

31 st January 2013			
NAV of fund	US\$323.6m		
A share unit price	US\$194.31		
I Share unit price	US\$122.39		
Performance			
	A Shares	I Shares	MSCI Emerging Markets*
January	+4.4%	+4.5%	+1.4%
2012	+17.8%	+18.2%	+18.2%
Since inception A**	+99.0%	-	+106.8%
Since inception A per annum**	+17.6%	-	+18.7%
Since inception I**	-	+25.9%	+26.2%
Since inception I per annum**	-	+7.2%	+7.2%

*Net Dividends Reinvested.

**A shares commenced on 3rd November 2008 and I shares on 1st October 2009.

Performance is calculated net of all fees and expenses and on a total return basis, inclusive of all distributions to unit holders.

Source: Oldfield Partners LLP, MSCI ©, Bloomberg and Northern Trust Intl. Fund Administrator Services (Ireland) Ltd.

Top Five Holdings*

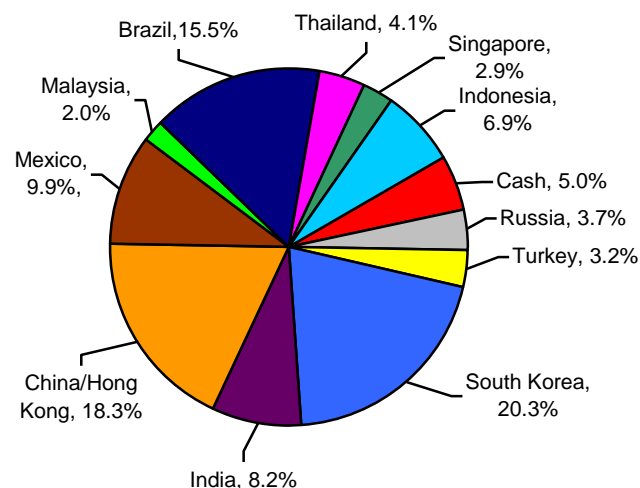
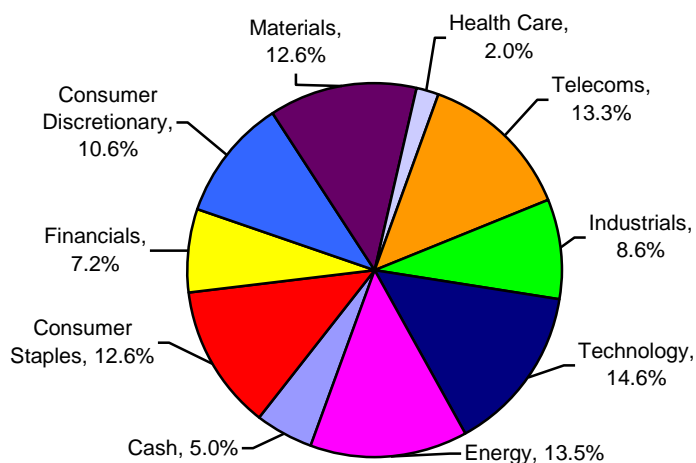
Stock	Portfolio Weighting	Monthly Performance (local terms)**
Embraer	8.6%	+15.6%
Samsung Electronics	8.6%	-4.9%
First Pacific	7.2%	+17.3%
Petrobras	6.9%	-6.3%
Ternium	6.4%	+0.3%

*As at end of period.

**Total return inclusive of dividends.

Source: Oldfield Partners LLP and Bloomberg.

Sector and country breakdown as at 31st January 2013



Source: Oldfield Partners LLP.

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JANUARY 2013 NEWSLETTER 51

The performance figures in the table above are quoted on a total return basis. Holders of the A shares will receive a dividend of US\$1.949 per share and holders of the I shares will receive US\$1.636 per share.

Commentary

The bottom three performers during the month by contribution were Samsung Electronics, Petrobras, and KT&G. **Samsung Electronics** (Korean consumer electronics) had its year end results, which matched expectations, but the company gave a mildly cautious tone to its outlook statement. Sales of its flagship smartphone models, the Galaxy S III and the Note II, continue to be strong (even in the weaker first quarter), and we expect the Galaxy S IV to build on this at its launch in April. Growth from the semiconductor division could be the star performer in 2013 based off subdued industry capital expenditure. Trading on a forward price earnings ratio of 8 we view the valuation as cheap.

Petrobras (Brazilian oil & gas) increased its domestic fuel prices in the month. Gasoline prices were increased by 6.6% and diesel prices by 5.4%. The price increase had been anticipated, and is one in a series of price increases over the last year. Although a positive move it still leaves about a 10% discount to international import parity. We would expect Petrobras and the government to continue to address this issue over the year in line with its policy to match international import prices over time. Initiatives, such as adjustments to the taxation of refined products or increasing the ethanol blend, could also be used. With a heavy capital expenditure program to develop the new oil discoveries in the deep water Santos basin there is a need to conserve cash flow and divest non-core assets. This has led to Petrobras reducing the dividend on the common shares. We hold the preference shares that continue to receive the same dividend terms as before. We switched into the preference shares in June 2009 when they traded at a 10% discount to the common shares, and more recently they moved to parity, and now to a 10% premium following the announcement on the differential in the dividend.

KT&G (Korean tobacco products) had full year results during the month that were solid for its domestic tobacco business and very disappointing for its ginseng business, which was impacted by weaker domestic and Chinese demand. The likelihood of tax increases on cigarettes in Korea and KT&G's pricing response this year is a key potential positive. Tobacco companies often use tax increases to mask a larger price increase. The company trades on a price earnings ratio of 12.

The top three performers during the month by contribution were Embraer, Infosys, and First Pacific. **Embraer** (Brazilian regional jet manufacturer) won a significant US order for regional jets in the month potentially worth \$4 billion. The new US order is a 25% increase to the current backlog of 185 units and allays recent concerns over the order book. Further sizeable orders from the US are likely near term, underlying the solid earnings growth profile for this year. The defence business continues to strengthen. The company trades on a forward price earnings ratio of 11.5 for 2013. **Infosys** (Indian IT services) had third quarter results that beat expectations, following a cautious tone given by the company only last month, and maintained its guidance for 2013 of at least 5% revenue growth in US dollar terms. This is only one quarter, and the recovery remains fragile. However, industry pricing is solid and Infosys is well positioned for a recovery in IT services demand. Only recently critics were calling the demise of the IT outsourcing model, but recent figures show unemployment in the IT sector in the US to be so low that the debate has shifted back to increasing visas rather than curtailing them. **First Pacific** (Hong Kong holding company) reflected the strong increase in the

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OLDFIELD PARTNERS LLP
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JANUARY 2013 NEWSLETTER 51

share prices of its underlying investments, especially those in the Philippines this month, and is attractively valued at a 40% discount to its net asset value.

Thai Beverage (beverages in Thailand) and its controlling family have successfully gained control of **Fraser and Neave** (Singapore food & beverages) following a bidding contest. Thai Beverage acquired a 29% stake last year and will not acquire more. The soft drinks business of Fraser and Neave would be an ideal fit with the extensive soft drinks distribution business (Serm Suk) that Thai Bev acquired in 2011. Serm Suk was the bottler for Pepsi in Thailand, but did not renew its contract because of the low margins on offer. Already Thai Beverage with Serm Suk have introduced a cola offering (called Est) that has taken 50% market share in a matter of months (albeit with Pepsi struggling to set up distribution). The addition of Fraser and Neave's product offering to the Thai market and the wider geographic spread for Thai Beverages' products in South East Asia could be a wonderful combination.

There was a glimmer of hope for our holding of **Chaoda Modern** (Chinese agriculture), which we have held at a zero price after the resignation of its auditors, and following the suspension of its shares in 2011 due to allegations in a short seller report. It has appointed a new auditor and from a credible firm Crowe Horwath. The successful completion of an audit and release of a set of accounts should allow resumption in trading for the shares. Even if the accounts are heavily restated it would be an improvement from the current state of affairs. During the period of suspension Chaoda has bought back all its debt (perhaps not the behaviour of a guilty party) and continued trading. If it has curtailed capital expenditure and business has been normal there could be a build-up of cash on the balance sheet. Perhaps this is all hoping too far, as there are many negative scenarios that could occur, and it is too early to hazard a valuation for a company without a set of published audited accounts.

During the month we sold the small position in **Triyards** (Vietnamese shipyard) we held following its spin-out from our holding in Ezra (Singapore oil services).

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JANUARY 2013 NEWSLETTER 51

Fund Information as at 31 st January 2013			
Currency	US\$	Investment Manager	Oldfield Partners LLP
Liquidity	Daily dealing	Administrator	Northern Trust International Fund Administration Services (Ireland) Ltd
Benchmark	MSCI Emerging Markets (Net Dividends Reinvested)	Custodian	Northern Trust Fiduciary Services (Ireland) Ltd
Management Fees	A shs = 1.25% I shs = 0.90%	Auditor	Deloitte
TER	A shs = 1.45% I shs = 1.10%	Admin & Custody Fees	0.18% on the first US\$75m 0.155% on the next US\$75m 0.14% on the next US\$150m 0.11% thereafter
Minimum Investment	The equivalent of €100,000	A shares ISIN	IE00B3DDVH01
		A shares sedol	B3DDVH0
		A shares ticker	OVEMKEA
Legal Advisers	Arthur Cox	I shares ISIN	IE00B4N0BT09
		I Shares sedol	B4N0BT0
		I shares ticker	OVEMKEI

Overstone Emerging Markets Equity Fund is a sub-fund of Overstone Fund plc, which is incorporated in Ireland and approved by the Irish Financial Services Regulatory Authority. Six other sub-funds exist under the Overstone Fund plc umbrella; Overstone Global Equity Fund was launched on 1st June 2005, Overstone European Equity Fund was launched on 3rd October 2005, Overstone Opportunity Multi Fund was launched on 1st November 2005, Overstone Global ex US Equity Fund was launched on 1st June 2006, Overstone Japanese Equity Fund was launched on 1st October 2007, Overstone Smaller Companies Fund was launched on 1st October 2007.

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