Oldfield Partners
Emerging Markets Investment Report
February 2015

Performance Summary

USD terms	Emerging Markets Equity Composite	Index*
February	+1.5%	+3.1%
2015 to date	+2.8%	+3.7%
2014	-2.4%	-2.2%
1 year	+3.2%	+5.0%
3 years annualised	+2.4%	-0.3%
5 years annualised	+3.2%	+3.6%
Since inception**	+616.4%	+316.4%
Since inception annualised**	+14.9%	+10.6%

*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	8.5	+0.6%	+0.9%
SK Telecom	8.4	+1.0%	+1.0%
Embraer	7.5	-0.8%	-0.8%
Infosys	7.3	+7.7%	+7.7%
Buenaventura	6.9	+1.4%	+1.4%

*As at end of period. **Total return inclusive of the portfolio activity. Source: Oldfield Partners and Bloomberg.

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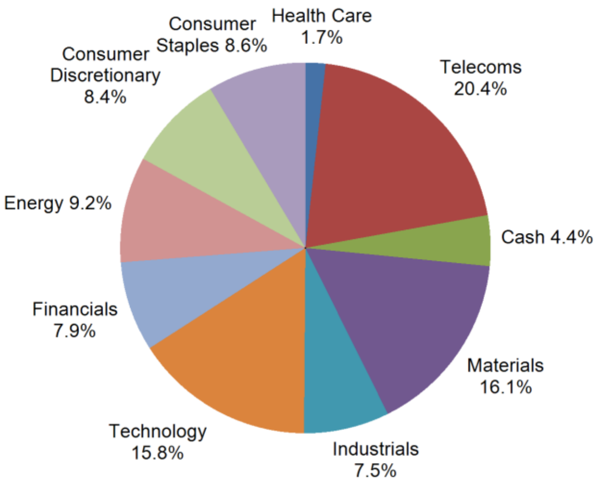
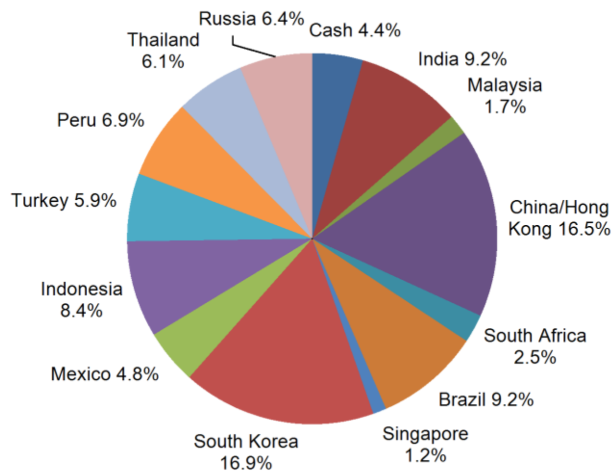
Sector and country breakdown as at 28th February 2015





Source: Oldfield Partners.

Commentary

Among the worst performers during the month by contribution were Turkcell, Eros, and Thai Beverage. **Eros International** (Indian Bollywood films) had third quarter results in the month, but disappointed sentiment by saying its joint venture partner, HBO India, was considering closing its Indian premium pay television service. As a new initiative it has never contributed to Eros's earnings. Eros said it would start its own more mass market focused offering using the experience gained with HBO, but this would involve capital expenditure to develop, whereas with HBO it only had to provide content. Management put forward a figure of $50 million with breakeven within two years. **Thai Beverage** (leading Thai alcoholic beverage producer) had its full year results at month end; the highlight in a solid set of results being the increase in its dividend pay-out to 71% (from 58% in the prior year) giving a dividend yield of 3.5%, while the company has continued to reduce its net debt to equity ratio to 45% from 65% a year earlier. **Turkcell** (Turkish telecom provider) has seen its share price languish since its well respected CEO left in January after eight years' service (and an interim internal candidate was selected). The role has often been made difficult by shareholder disputes, aggressive competition, and the regulator favouring the smaller players. The Turkish currency has been a continuing headwind having weakened a further 20% against the US dollar since last summer. In addition, Turkey is set to hold the 4G auction this summer with an uncertain cost (estimated at $400m per licence) and the possibility of another entrant. Turkcell has a strong balance sheet to maintain its dominant market position in mobile, and Turkey remains an attractive telecom market with a young and growing population and low smartphone penetration (40%) leading to continued growth in data usage.

The top performers during the month by contribution were Lukoil, Infosys, and Yue Yuen. **Lukoil** (Russian oil) has rallied strongly as the oil price has made a mild recovery and the rouble has remained weak. Hopes by some of stability in the Ukrainian crisis have prompted an improvement in sentiment towards Russian equities. Importantly the management of Lukoil restated its (soft)

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commitment to paying a dividend for 2014 that will be at least flat in US dollar terms. This implies an increase in rouble terms of 80% given the collapse in the local currency. This would give Lukoil an estimated dividend yield of more than 6.5%; and help to dispel market concerns that private companies would be unlikely to make shareholder returns above those of state companies at this difficult time. **Infosys** (Indian IT services) has continued to perform strongly as its new CEO made a small acquisition confirming the strategy of moving the company towards artificial intelligence and automation of IT services. Management believes Infosys can once again consistently beat industry growth figures. Infosys has a cash pile of roughly $5.5 billion or 14% of its market capitalisation. In April management are to outline a capital return policy. **Yue Yuen** (Hong Kong footwear manufacturer) has seen its share price rise steadily since last autumn as concerns over disruption caused by moving production away from China have dissipated and productivity has increased. Workers in China are paid roughly twice as much as those in Vietnam or Indonesia. Guangdong province in China has again recently increased the minimum wage by 20%, but Yue Yuen's exposure to China has fallen sharply in recent years to only a third of production. The merits of Yue Yuen's business model have allowed it an excellent record of returning free cash flow as dividends to investors since the early 2000's.

Other news of note in the portfolio came from Petrobras, Samsung Electronics, and Chaoda Modern. The ongoing corruption scandal in Brazil caused the top management of **Petrobras** (Brazilian oil) to resign, in part to appease the auditor, so that there is no possible taint remaining (however unfair to the outgoing management). The new CEO and CFO are from Banco do Brasil, and with banking backgrounds the message is that their role is to get Petrobras through this crisis period. Top priority is to determine with the auditor the method and amount of any impairment charge. With limited financing options currently open to Petrobras the management has cut capital expenditure and has increased asset sales, and the company has no need of the debt markets for 2015. There is an implied backing by the government as the largest shareholder and as it is a national champion. We halved the position last November, and keep a reduced weighting of 1.5%.

Samsung Electronics (Korean consumer electronics) has previewed its new flagship mobile phone, the Galaxy S6. This is a crucial part of the mobile division's transformation strategy. High-end smartphones account for 25% of volumes, but 60% of the division's profits, and the mobile handset division accounts for over 50% of the company's profits. The Galaxy S6 has addressed many of the prior models' shortcomings, and with a metal and glass casing, top end specification and components (mostly in-house Samsung), and bended OLED display in the Edge version it should be well received despite being more expensive than the outgoing model. Samsung Electronics has now revamped the mobile handset range from the low to high end, moved through the inventory challenge, adopted a leaner and more aggressive strategy, and can look to better results for this division in 2015.

There was some welcome news on **Chaoda Modern** (Chinese agriculture). After three years of suspension Chaoda has its shares trading in Hong Kong again. It has met the Hong Kong exchange's conditions with the publication of all its financial statements since suspension. Unfortunately management has not agreed to meet with investors at this point. With the company in a loss making position investors need to hear the strategic direction management proposes. The company has net cash and no debt, which gives it some flexibility. The share price fell heavily following the first trades (-70% in the month), but the position had previously been held at a nil price in the portfolio due to the uncertainty.