

OLDFIELD PARTNERS LLP

EMERGING MARKETS INVESTMENT REPORT

JUNE 2009

Performance Summary as at 30th June 2009

US\$ terms	Emerging Markets Equity Composite	MSCI Emerging Markets (NDR)
June*	+0.3%	-1.3%
2009 to date*	+31.1%	+36.0%
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**	+343.1%	+180.1%
Since inception pa**	+19.1%	+12.9%

* Estimate used for June 2009.

** Inception 01 Jan 2001.

Performance figures are of the Emerging Markets Equity Composite, calculated on a total return basis inclusive of dividends, inclusive of all distributions to unit holders.

Source: Rawlinson & Hunter, Alta Advisers Ltd, Oldfield Partners LLP, MSCI © and Bloomberg.

Commentary

June saw the cyclical stocks that had rallied hard of late pull back, most notably the energy and materials sectors. There was a rotation into other sectors, and laggards like telecom and consumer benefited. So far in 2009 it have been the BRIC countries of Brazil, China, India and Russia (plus Chile and Indonesia) that have performed well, whilst Eastern Europe (ex Russia) and Mexico have brought up the rear. Emerging markets have performed strongly against the developed markets as investors look for growth, and so the underperformance of economies linked to the West, such as Eastern Europe and Mexico, is understandable. Those areas with a China story have tended to do well.

Lonmin (South African platinum miner) continued its disappointing streak with a shut-down of its main smelter. In the past the stock has had issues with the efficient running of its operations. Meanwhile speculation of further consolidation in the platinum industry continues. We bought

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Lonmin in April and we thought it could be a bumpy ride until the normalisation of its key automotive end markets. So far it has been bumpy, but the stock still looks good value to its reserves.

Chaoda (Chinese vegetables) had a share placing during the month, which will cover the debt due to fall due early next year. This will leave the company with a very strong balance sheet, as it also recently retired its convertible bonds. The recent communication with investors has been poor and frustrating on the issue of the share placing, and has done little to boost the reputation of the management. However, the company is in an attractive position, within an attractive industry, and able to fund its continued expansion. The shares would likely be re-rated if the market could rely on a more consistent message from the management. It trades on a price earnings ratio of four.

Eros International (Indian Bollywood films) was the stand out performer for the month (+61%). There had been a stand-off between the multiplex cinemas and the film makers on the percentage of revenue split each should receive from new film releases, which had brought the industry to a standstill during an already difficult time. The end of this dispute is a positive. I visited Eros recently on a trip to India and it is clearly at the cutting edge of this growing and dynamic industry. It trades on a price earnings ratio of six.

During the month we bought Samsung Electronics and Sasol for the portfolio. **Samsung Electronics** (Korean consumer electronics) is a global market leader in almost all the main product areas it competes in. The three main divisions are mobile handsets, consumer electronics (such as LCD televisions), and semiconductors. Semiconductors are the division to watch as this highly cyclical industry can have a big impact on the company's results. It trades on a price to book ratio of 1.3 and has a strong balance sheet. **Sasol** (South African oil & gas) is the largest producer of fuel and chemicals in South Africa. It uses a process (Fischer-Tropsch) to convert low cost feedstock, gas and coal, into fuels and petrochemicals at globally competitive rates. Sasol had not taken part in the recent rally and is trading at a price earnings ratio of 7, with a dividend yield of 4%, and a solid balance sheet.

A noteworthy trade during the month was a switch in the portfolio's holding in **Petrobras** ordinary shares into the preference shares. The twenty percent discount between the two is attractive. The preference shares lack voting rights and have less liquidity, but in reality the company is controlled by the Brazilian government and the liquidity in both share classes is substantial. We are buying the same earnings per share, but at a twenty percent discount and with the possibility this discount may narrow in time.

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A visit to **VTech Holdings**, a current portfolio holding, in Hong Kong this month highlighted an interesting point. VTech see solid performance for this year not because their end markets are recovering, in fact the market is tougher, but because their competitors are exiting the market through bankruptcy. The gain in market share offsetting the shrink due to the economy, and leaving it stronger positioned for an eventual recovery. A well run company with a sound balance sheet is able to find advantage even in a downturn.

At the end of the month the portfolio held twenty four stocks, which happens to be at the high end of our historic range of 15 to 25 positions. We continue to find attractive investments, and with valuations not strongly favouring any particular sector or area currently, the additions have been in a variety of sectors and countries.

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