Oldfield Partners LLP
Emerging Markets Investment Report
June 2010

Performance Summary as at 30th June 2010

US$ terms	Emerging Markets Equity Composite	MSCI Emerging Markets (NDR)
June*	-1.6%	-0.7%
2010 to date*	-2.9%	-6.2%
2009	+83.8%	+78.5%
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**	**+503.3%**	**+245.0%**
Since inception pa**	**+20.8%**	**+13.9%**

* Estimate used for June 2010.
** Inception 01 Jan 2001.
Performance figures are of the Emerging Markets Equity Composite, calculated net of all fees and expenses and 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.

Performance of Five Largest Holdings *

	Portfolio Weighting * %	Monthly Performance (local terms**)	Monthly Performance (US$ terms**)
Gazprom	7.5	-7.6%	-7.6%
Samsung Electronics	6.7	-0.3%	-1.6%
SK Telecom	6.0	-5.3%	-5.3%
Yue Yuen Industrial	5.6	+2.4%	+2.4%
Corp GEO SAB	5.6	-5.5%	-5.2%

*As at end of period, using the Overstone Emerging Equity Fund.
**Total return inclusive of dividends.
Source: Oldfield Partners LLP and Bloomberg

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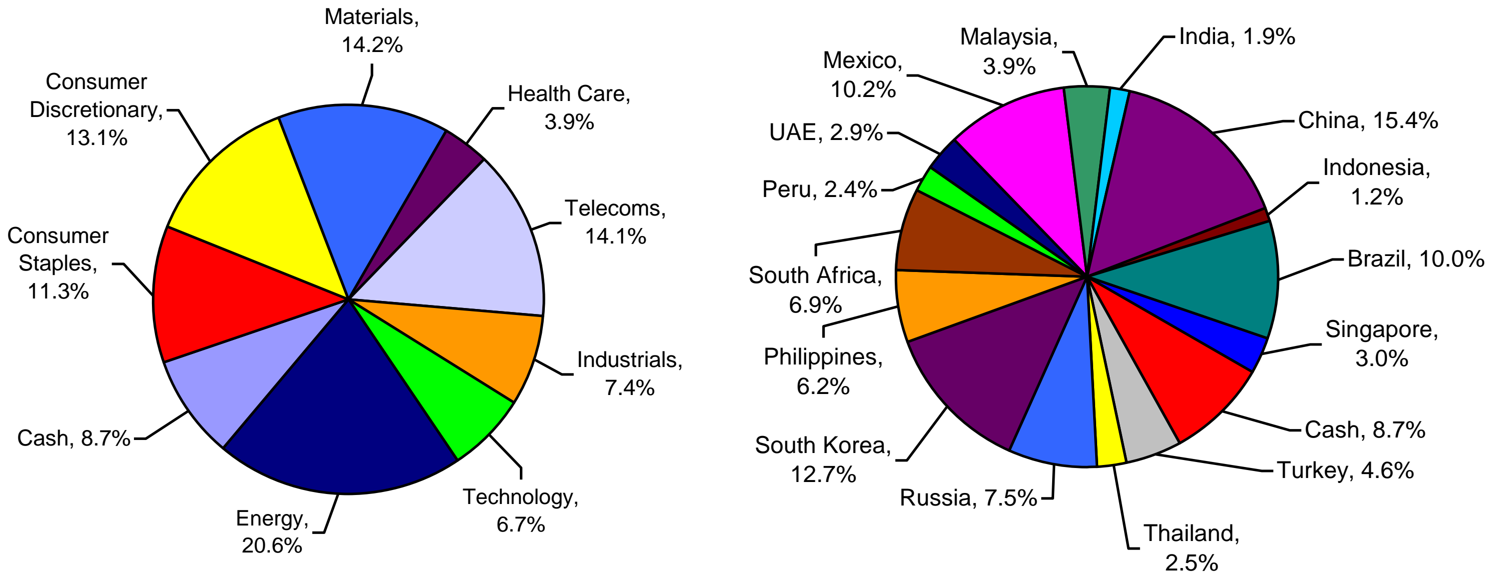
Sector and country breakdown as at 30th June 2010



Source: Oldfield Partners. Overstone Emerging Markets Fund.

Commentary

Equity markets having come to grips with anaemic growth from the developed world and growing concern over its wider sovereign debt issues are now confronted with key developing nations looking to slow their economies. Emerging markets are beginning the tightening cycle because of growing concerns over inflation (even if not showing up in official numbers). China announced important measures on its currency in the month and continues to restrain the property sector.

Although China is likely to slow from low double digit economic growth rates it is unlikely to go below 7 percent (a figure that would make many a country green with envy). The market has been more concerned with the composition of this future growth, with the emphasis being placed on consumption rather than fixed asset investment, and the difficulty in making a transition. Chinese household income has been weak relative to GDP and corporate profits this decade. The government was deafeningly silent about recent wage increases due to industrial action. Interestingly, within the consumer space China is light on services, which are less import intensive. Although no-one would disagree that a more ‘balanced’ and ‘harmonious’ China is a good thing in the long run, the long run is made up of lots of short runs for the market to worry about.

The initial period of global stimulus measures has ended and we wait to see if it had any lasting impact. Chatter about ‘double dips’ has returned and with it will grow the call for further stimulus and monetary

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games – however, the list of players is diminishing. The recent G20 meeting sent a somewhat confused message. Debt lies at the heart of the problem – but a solution through stimulus or through ‘belt-tightening’ is hotly debated.

Meanwhile, emerging markets continue to decouple from the developed world. This might be more of a concern if valuations were rich, but this is not the case. We continue to wonder if emerging markets can trade at a premium to the developed world this cycle. In the past such episodes have been short-lived and generally the result of excessive debt-funded growth, but this time it would be the result of prudent policies and so perhaps deserved.

The bottom three performers by contribution over the month were Sino-Forest, Gazprom, and Lonmin. **Sino-Forest** (Chinese forestry) was impacted by a slow-down in the Chinese property cycle through the demand for furniture and property related timber products. **Gazprom** (Russian gas) was impacted by the concerns that the European economy would slow and by a spat with its neighbour, Belarus, over debts and gas transit. **Lonmin** (South African platinum producer) reflected falls in the platinum price as concerns on automobile sales mounted as stimulus measures are reduced.

The top three performers by contribution over the month were Universal Robina (URC), Top Glove, and Chaoda Modern. **Universal Robina** (Philippine consumer products) continues to perform well, as it benefits from restrained input prices, a buoyant consumer, and pricing power in its key areas. **Top Glove** (Malaysian latex gloves) services defensive end markets, namely medical and food preparation, with growing usage in the developing world and stable demand in the developed world. **Chaoda Modern** (Chinese agriculture) had no notable news flow, but as with the other top performers this month operates in a defensive market area.

Petrobras (Brazilian oil producer) had an eventful month and is worthy of note. It released its Strategic Plan 2010-14 showing strong production growth (+9% p.a.) mainly from its existing asset base and a ramp up in capital expenditure to $224 billion over the period. Thereafter strong production growth from its pre-salt oil discoveries should raise production still further. The market was disappointed by a focus on refining investments given the historically poor returns from this area and ample opportunities in upstream projects. The gap between cash flow and capital expenditure is around $58 billion over the period, and would need to be met by an increase in debt or equity. However, Petrobras has delayed its equity issue planned for July to September, creating short-term uncertainty and the prospect of a stock overhang. The pre-salt oil opportunity in Brazil will transform Petrobras into a top tier global oil company on production and reserves, and yet in a sensible and profitable regulatory framework. We remain positive on Petrobras despite acknowledging that higher capital expenditure near term will impact on earnings and free cash flow for a number of years. There are many super-major oil companies that would dream of having Petrobras’s so-called problems.

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