

OLDFIELD PARTNERS LLP

EMERGING MARKETS INVESTMENT REPORT

JUNE 2012

Performance Summary as at 29th June 2012

US\$ terms	Emerging Markets Equity Composite	MSCI Emerging Markets (NDR)
June*	+3.0%	+3.9%
2012 to date	+1.9%	+3.9%
Since Inception**	+481.4%	+270.5%
Since inception per annum**	+16.5%	+12.1%

*Estimate used for June 2012.

**Inception 01 Jan 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 LLP, Northern Trust, MSCI © and Bloomberg.

Performance of Five Largest Holdings*

	Portfolio Weighting* %	Monthly Performance (local terms**)	Monthly Performance (US\$ terms**)
Samsung Electronics	8.8	-0.8%	+2.5%
First Pacific	7.8	+1.9%	+1.9%
Embraer	7.5	-5.3%	-5.3%
Petrobras	7.1	-4.0%	-4.0%
SK Telecom	7.1	+8.6%	+8.6%

*As at end of period, using a representative portfolio.

**Total return inclusive of dividends.

Source: Oldfield Partners LLP and Bloomberg.

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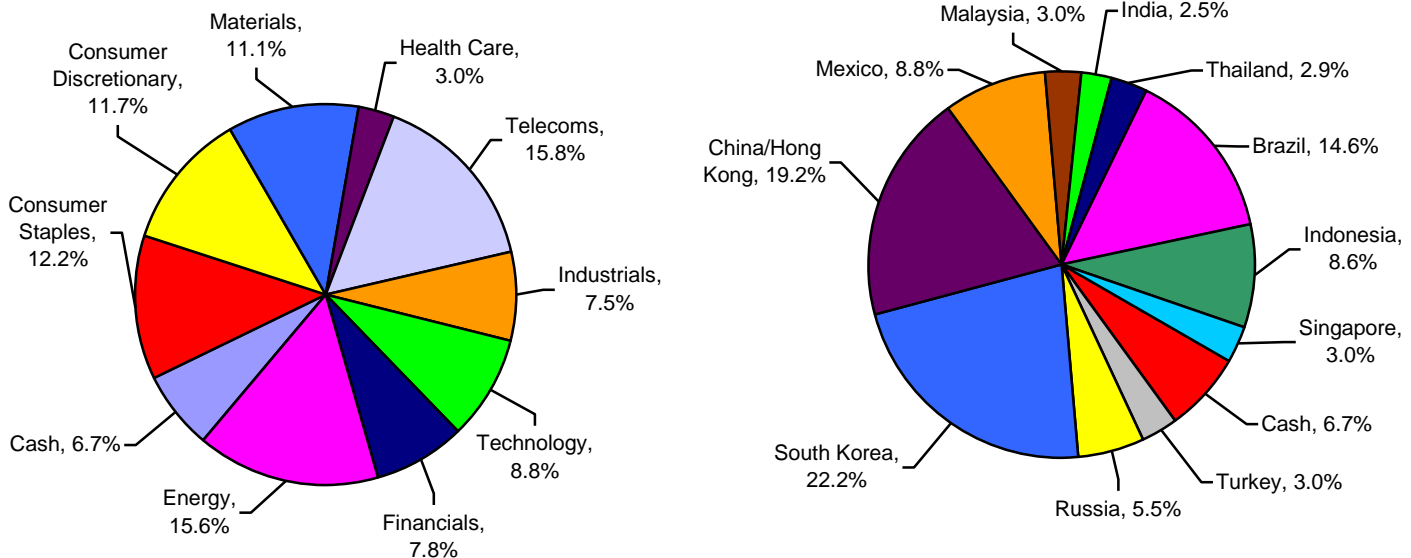
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Sector and country breakdown as at 29th June 2012



Source: Oldfield Partners LLP. Representative Portfolio used.

Commentary

The direction of emerging markets equities continues to be set by news flow from the political-economic developments in the wider world. There is a slowdown in economic growth in key global markets, but equity market valuations have reflected a lot of bad news already and expectations remain for further monetary policy initiatives by central banks. The portfolio trades on a historic price to earnings ratio of 11 and on a price to book ratio of 1.4.

The bottom three performers by contribution during the month were Lee & Man Paper, Eros International, and Embraer. **Lee & Man Paper** (Hong Kong containerboard) is the second largest containerboard manufacturer in China and sensitive to economic changes in the country. The company had full year results during the month showing increased cost pressures that were hard to fully pass on to end customers due to a weak and competitive market. It is one of the lowest cost producers in China and the industry looks to be more restrained in its capacity expansion for the next couple of years. The stock trades on a price to book ratio of 1.1, which is at the bottom end of its historic range. **Eros International** (Indian Bollywood films) delayed its listing in the US due to difficult market conditions, but it hopes to proceed later in the year. **Embraer** (Brazilian regional jet manufacturer) faces the deferral of European airline orders, but hopes for new orders from the US. The order book has fallen recently to \$14.7 billion, on solid deliveries,

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but remains at a healthy level. Weakness in the Brazilian currency and government initiatives to assist exporters help margins. The Farnborough air show this summer is often a positive for Embraer. The stock trades on a forward price earnings ratio of 9, at 1.5 times book value, and with a solid balance sheet.

The top three performers by contribution during the month were SK Telecom, Corp Geo, and Telkom Indonesia. **SK Telecom** (Korean mobile operator) continues to face a competitive marketing environment in Korea with the launch of 4G, but the Korean consumer remains hungry for the latest smartphone offering despite the maturing of the market. This will be another tough year for the company. The stock trades on a price earnings ratio of 6.5, at book value, and with a 7% dividend yield. **Corp Geo** has been expanding into medium rise buildings (flats) and pre-fabricated construction methods that have impacted free cash flow generation. The market is highly sceptical of the company's free cash flow forecast for this year following a poor set of first quarter results. Government sponsored housing initiatives continue to favour the move to medium rise construction, but awareness of the impact on the industry have led to a new scheme offering limited funding of partially completed buildings by Infonavit, the largest mortgage writing entity in Mexico. This is an important first step in the right direction. Geo trades on a price earnings ratio of 6 and at 0.8 times book value. **Telkom Indonesia** (Indonesian telecom operator) benefited this month from its defensive characteristics; having an increasing dividend yield, strong balance sheet, and solid free cash flow generation. Recent regulatory moves have benefited the larger players such as Telkom, industry competition remains rational, data growth continues, and Telkom enjoys the benefit from having the largest and most advanced rural network.

Petrobras (Brazilian oil & gas) has been our biggest disappointment this year partly due to the oil price, but also in the delivery of its latest strategic plan. The new CEO gave a realistic five year plan with a modest increase in capital expenditure of 5%, but a reduction in production goals compared to the prior plan. Production goals were cut 20% for 2016 and by 10% for 2020 compared to the previous plan. Production will remain flat through to 2013. The long term production growth for Petrobras is strong, with production more than doubling between now and 2020. Over the last five years Petrobras has found about one third of all the new oil discovered worldwide. Despite the delay in reaching the growth phase for production management believe that the capital expenditure programme can be met from internal cash flow and debt, whilst maintaining its solid balance sheet. The stock trades on a price earnings ratio of 6 and a dividend yield of 4.5%.

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