

OLDFIELD PARTNERS

EMERGING MARKETS INVESTMENT REPORT

JUNE 2014

Performance Summary as at 30th June 2014

USD terms	Emerging Markets Equity Composite	Index*
June**	+2.3%	+2.7%
2014 to date**	+4.9%	+6.1%
2013	+6.1%	-2.6%
1 year	+15.4%	+14.3%
3 years annualised	+3.5%	-0.4%
5 years annualised	+11.2%	+9.2%
Since inception***	+649.4%	+335.7%
Since inception annualised***	+16.1%	+11.5%

*MSCI Emerging Markets (Net Dividends Reinvested).

**Estimate used for June 2014.

***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, Northern Trust, MSCI © and Bloomberg.

Performance of Five Largest Holdings*

	Portfolio Weighting* (%)	Monthly Performance (local terms**)	Monthly Performance (USD terms**)
Samsung Electronics	7.5	-8.4%	-7.5%
Embraer	7.0	+0.8%	+0.8%
SK Telecom	6.8	+8.9%	+8.9%
Lukoil	6.4	+5.5%	+5.5%
Petrobras	6.2	+4.8%	+4.8%

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

**Total return inclusive of dividends.

Source: Oldfield Partners and Bloomberg.

Oldfield Partners

130 Buckingham Palace Road, London, SW1W 9SA.

Telephone: +44 (0)20 7259 1000 Email: info@oldfieldpartners.com

www.oldfieldpartners.com

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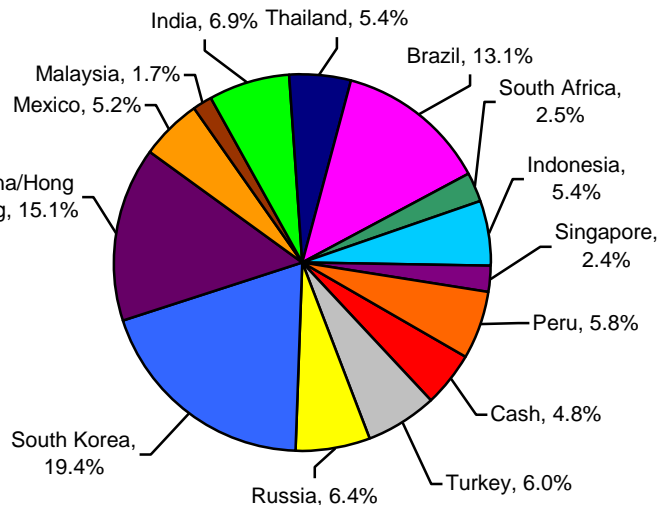
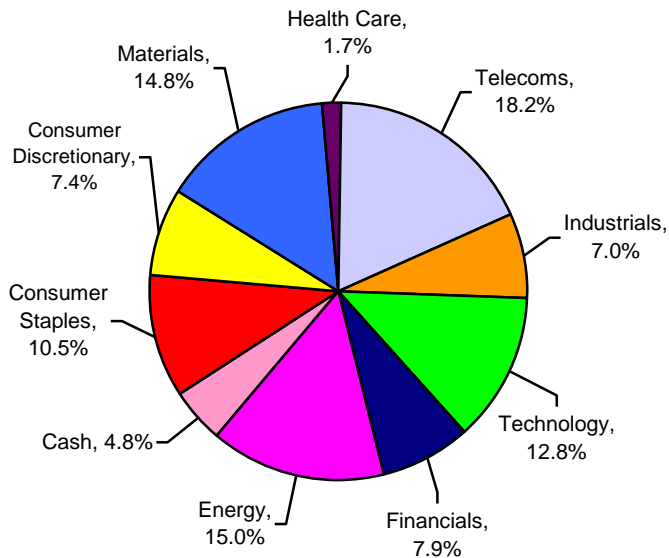
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Sector and country breakdown as at 30th June 2014



Source: Oldfield Partners. Representative Portfolio used.

Commentary

The MSCI Emerging Markets Index has been rallying through the month and the second quarter. The index looks to have been in a trading range between 900 and 1,150 since 2010 and is currently at 1,060. The valuation for the index remains attractive on a price to book ratio of 1.55, which is on the attractive side of its historic average valuation despite the recent rally.

Among the worst performers during the month by contribution were Telkom Indonesia and Samsung Electronics, and for the quarter by contribution were Lee & Man Paper and Ternium. **Samsung Electronics** (Korean consumer electronics) may have disappointing second quarter results this month as the inevitable commoditisation of smartphones and heated competition from Chinese manufacturers drag on margins and volumes. The latest iPhone is due for release in the autumn; with a larger screen it will have wider consumer appeal, and will keep competition tough to at least the year end. Positives for Samsung include the growth of 4G, new product launches, potentially new screen formats in 2015, and Samsung's scale and distribution. The semiconductor division, and especially DRAM, is performing well as the consolidated industry continues to behave rationally. Investors are hoping for some news on Samsung's shareholder return policy in the results at month end, with ample cash and free cash flow available, to offset this slower growth phase. It trades on a price to earnings ratio (ex-cash) of 5 and has a free cash flow yield of 12%. **Telkom Indonesia** (Indonesian telecom provider) had limited news flow and continued to raise tariffs in the quarter within a benign competitive environment. Indonesia has its presidential election result on July 9th with two very different candidates and an uncertain outcome.

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The top performers during the month by contribution were Yue Yuen, Buenaventura, & SK Telecom, and for the quarter by contribution were Petrobras and SK Telecom. **SK Telecom** (Korean mobile provider) has performed strongly with the growth in 4G subscribers and the 'forcibly' restrained marketing of the three mobile players by the regulator. The average revenue per user (ARPU) is approximately 40% higher on a 4G handset than a 3G handset, and 4G users are about 55% of SK Telecom's user mix and increasing. SK Telecom's investment in 21% of SK Hynix in 2012, near the bottom of the DRAM cycle, has done well and it now accounts for 20% of overall profit (and 38% of SK Telecom's market capitalisation). SK Telecom trades on a price earnings ratio of 12 and a price to book ratio of 1.5. **Buenaventura** (Peruvian miner) had positive news as the key and most vocal opponent of its long delayed Minas Conga growth project will be charged with corruption. Some think that his opposition to the project may have had more to do with his political career than environmental concerns. **Petrobras** (Brazilian oil & gas) had a mixed blessing from the Brazilian government in the granting of an extra 10 to 15 billion barrels of oil in the pre-salt area from 2021. The terms of the deal look attractive - with minimal upfront payment, no exploration risk, and significant growth in high quality reserves, but Petrobras has more than enough oil on its plate and there will be incremental capital expenditure. The communication of the deal was poor in that the government looked to be in the driving seat, which is a perception that Petrobras can ill afford.

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