

OLDFIELD PARTNERS LLP

EMERGING MARKETS INVESTMENT REPORT

SEPTEMBER 2009

Performance Summary as at 30th September 2009

US\$ terms	Emerging Markets Equity Composite	MSCI Emerging Markets (NDR)
September	+10.7%	+9.1%
2009 to date	+67.4%	+64.4%
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*	+465.5%	+238.7%
Since inception pa*	+21.9%	+15.0%

* 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

Emerging markets had a strong September with the index rising by 9%. Latin America led the pack with the MSCI index rising 12%, Eastern Europe by 11% and Asia increased by 8.8%. Year to date the MSCI Emerging index is up 64%, some 45% from its 2007 peak, with Asia up 60%, Eastern Europe +66%, and Latin America +80%. Emerging markets have made up their underperformance against developed markets during the downturn.

The top three performers (by contribution) in the month were Buenaventura, Sino-Forest and DP World. **Buenaventura** (Peruvian gold miner) reacted to the move upwards by precious metal prices. The gold price held above the psychologically important \$1,000/oz level. **Sino-Forest** (Chinese forestry) reported a solid set of first half 2009 results in August with revenues increasing 25% year on year, earnings per share up 14% and cash flow gaining strongly. The management made positive outlook comments regarding log pricing and continued stimulus-driven construction demand. **DP World** (Dubai based port operator) had a stunning month on the back of its recent first

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half results. The company is well positioned to benefit from a rebound in global trade and especially from the growth in emerging markets. Some 75% of its volumes are from emerging markets. Containerisation is established in the developed world, but there is significant growth potential in emerging market trade.

The bottom three performers (by contribution) in the month were Asia Satellite, Sinotrans Shipping and Sasol. **Asia Satellite** (Hong Kong based satellite operator) had performed strongly in recent months, and so a rest in the share price was not unexpected. **Sinotrans Shipping** (Chinese ship operator) moved with the sentiment towards the sector and the fall in the Baltic Dry index. We view the valuation of this company as highly attractive. Net cash equals over half its market capitalisation, it has little capital expenditure planned, and a competitive cost base. We are happy to wait for a recovery in global trade, which has historically grown at a faster pace than global economic growth. **Sasol** (South African energy company) has been a laggard this year having traded sideways through 2009. The benefits of the rising oil price have been offset by the strength of the Rand. The full year results were downbeat with management expecting 2010 earnings to be flat. Sasol has historically made good returns, and especially so in a high oil price environment.

Petrobras (Brazilian oil Company) has been a strong performer this year and has benefited from its prolific oil discoveries in the pre-salt layer of the Santos basin. Petrobras has a solid reserve base in its existing Campos basin reserves and strong production growth, but the new oil discoveries have the potential to be truly transformational. The pre-salt layer oil is 6,000 meters below the surface and as a new oil frontier it is far from being risk free. However, the company believes the oil is commercially developable and importantly at a cost not far above its existing deepwater reserves. The recent news has focussed on the remaining exploration area of the pre-salt layer, with only 28% having been given as concessions. There were many uncertainties regarding the treatment of Petrobras and new taxation of the pre-salt area. Although the final proposals have not been ratified into the law the draft is encouraging and well thought out. It ensures a strong role for Petrobras, whilst allowing international competition, and protecting Petrobras minority shareholders (as per Brazilian law). Petrobras is in an enviable position with access to a substantial new oil frontier, within a reasonable regulatory regime, and the technical advantage of being a world leader in deep water drilling.

Emerging markets have risen 100% since the low in autumn 2008 and investors should rightly question the sustainability of the current market. There are good arguments for the secular bull market in emerging markets and those for liquidity flowing in from the side lines, but we shall put them to one side for now. The positive case rests with the strong bounce back in earnings expected in 2010, which in dollar terms for the MSCI index are expected to rise by 32%. This would take the

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index price earnings ratio from 17 for 2009 to a reasonable 13 for 2010, following a dismal 2008 when earnings fell 25% and a 7% fall expected for 2009. A bounce back in earnings of this degree is not unusual in a recovery, but without it the market would be looking stretched. We expect a fall in earnings for 2009 of 7% for our portfolio and a more muted bounce back in earnings of 19% in 2010. The price earnings ratio for our portfolio for 2009 and 2010 would be 13 and 11 respectively. We feel comfortable that the earnings expectations for the portfolio are less demanding, and this fits with our bias towards companies with more stable earnings. The index trades on a price to book ratio of two, which is approximately in line with its ten year average, and also in line with our portfolio, but our portfolio has a higher return on equity than the index.

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