

OLDFIELD PARTNERS LLP

EMERGING MARKETS INVESTMENT REPORT

SEPTEMBER 2011

Performance Summary as at 30th September 2011

US\$ terms	Emerging Markets Equity Composite	MSCI Emerging Markets (NDR)
September*	-10.1%	-14.6%
2011 to date	-27.5%	-21.9%
2010	+22.3%	+18.9%
Since Inception**	+450.9%	+241.4%
Since inception pa**	+17.2%	+12.1%

*Estimate used for September 2011.

**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, Northern Trust, MSCI © and Bloomberg.

Performance of Five Largest Holdings*

	Portfolio Weighting* %	Monthly Performance (local terms**)	Monthly Performance (US\$ terms**)
Samsung Electronics	9.4	+12.9%	+1.8%
Embraer	8.4	+0.4%	+0.4%
KT&G Corp	6.9	+6.8%	-3.7%
Petrobras	6.9	-22.3%	-22.3%
First Pacific	6.3	-5.8%	-5.8%

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

**Total return inclusive of dividends.

Source: Oldfield Partners LLP and Bloomberg.

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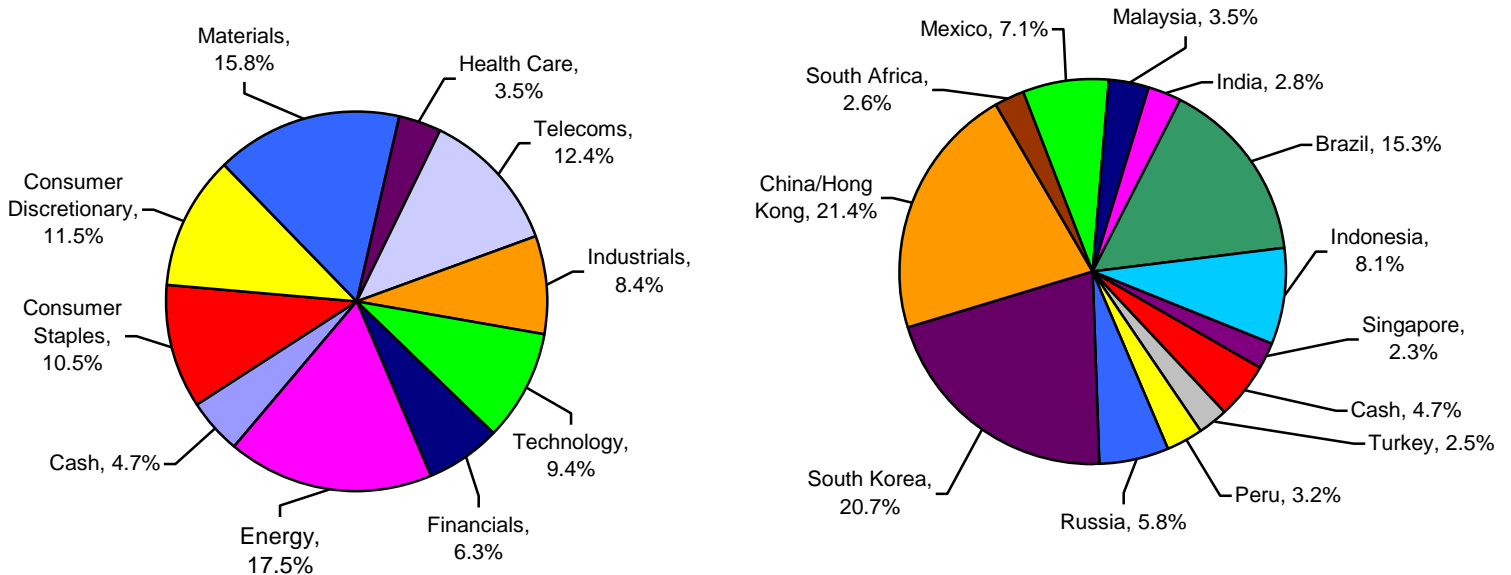
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Sector and country breakdown as at 30th September 2011



Source: Oldfield Partners LLP. Representative Portfolio used.

Commentary

September was another difficult month for equities, with emerging markets falling 14.6% in US\$ terms. The price to book of the MSCI Emerging Markets Index is 1.45, which is towards the lower end of its historic valuation range. In addition to the debt crisis in developed markets investors are starting to factor in a slowdown in the Chinese economy.

Chinese stocks continue to be under pressure with many smaller capitalisation stocks showing dramatic year to date falls. In our June newsletter we wrote that Chinese companies may become a 'no go zone' for some time. **Chaoda Modern** (Chinese agriculture) was suspended following news that the management team had been caught up in an insider dealing inquiry against a foreign fund manager. At this stage it looks as if the company and management will be cleared. We had reduced the weighting of Chaoda in the portfolio to 1.5% earlier in the month as it looked a potentially easy target for short sellers; a short seller report on Chaoda was duly written - the key allegations being that management have inflated the capital expenditure figures and been dishonest in dealing with related parties. The share price remains suspended pending further audit work ahead of its full year results. Chaoda's market capitalisation is equal to its net cash and listed investments. Chaoda and **Sino-Forest** (Chinese forestry) are similar in that both were in the capital expenditure heavy 'land grab' phase of their development; which on the one hand can be open

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to abuse by dishonest managements, but on the other hand allows a company to secure assets while they are cheap. If Chaoda is cleared over the coming month and releases its full year results it should re-assess its growth strategy to allow cash flow to go to shareholders and rebuild investor confidence.

The top two performing holdings by contribution in the month were Huabao International and Samsung Electronics. **Huabao International** (Chinese flavours & fragrances) is the dominant company in the Chinese tobacco flavouring market, with over 50% market share, and is moving into the reconstituted tobacco leaves (RTL) business. RTL allows tobacco companies to reduce the tar levels in their products and comply with tighter restrictions. The company trades on a price earnings ratio of 12. **Samsung Electronics** (Korean consumer electronics) is trading at trough valuations as we near the bottom of the semiconductor cycle. With leading global positioning in most of its divisions and a strong balance sheet the company looks set to distance itself further from its peers again this cycle.

The bottom two performing holdings by contribution in the month were Petrobras and Geo. **Petrobras** (Brazilian oil) reflected the weaker oil price in the month. We remain positive on the longer term strategy of Petrobras to develop the deepwater pre-salt oil assets. The company has communicated a clear development strategy and delivered at each stage in recent years. **Geo** (Mexican homebuilder) continues to execute well and the supply of mortgages remains solid, however, investors worry about the impact of a prolonged recession on the sector. The company is investing in projects to cut costs longer term, such as pre-fabricated houses, but which impact near term cash flow. The company trades on a price earnings ratio of 7 and at book value.

During the month we bought Indofood and Lee and Man Paper. **Indofood** (Indonesian snack foods) is the leading consumer foods company in Indonesia, with a strong position in the instant noodle business. It trades on a price earnings ratio of 14. We also have exposure to Indofood through our long standing holding in **First Pacific** (Hong Kong listed diversified holding company). **Lee & Man Paper** (Chinese paper) is the second largest containerboard producer in China. It is a cyclical industry, but one that is consolidating steadily. The key end customers are in the consumer space. It trades on a price earnings ratio of 6 and at book value.

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