

# OLDFIELD PARTNERS LLP

## EMERGING MARKETS INVESTMENT REPORT

### NOVEMBER 2011

#### Performance Summary as at 30<sup>th</sup> November 2011

US\$ terms	Emerging Markets Equity Composite	MSCI Emerging Markets (NDR)
November*	-4.3%	-6.7%
2011 to date	-23.6%	-17.4%
2010	+22.3%	+18.9%
Since Inception**	+480.0%	+260.9%
Since inception pa**	+17.5%	+12.5%

\*Estimate used for November 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	9.3	+3.7%	+1.1%
Embraer	8.3	-8.3%	-8.3%
First Pacific	8.0	+3.3%	+3.3%
Petrobras	7.9	+0.0%	+0.0%
Gazprom	6.8	-1.5%	-1.5%

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

\*\*Total return inclusive of dividends.

Source: Oldfield Partners LLP and Bloomberg.

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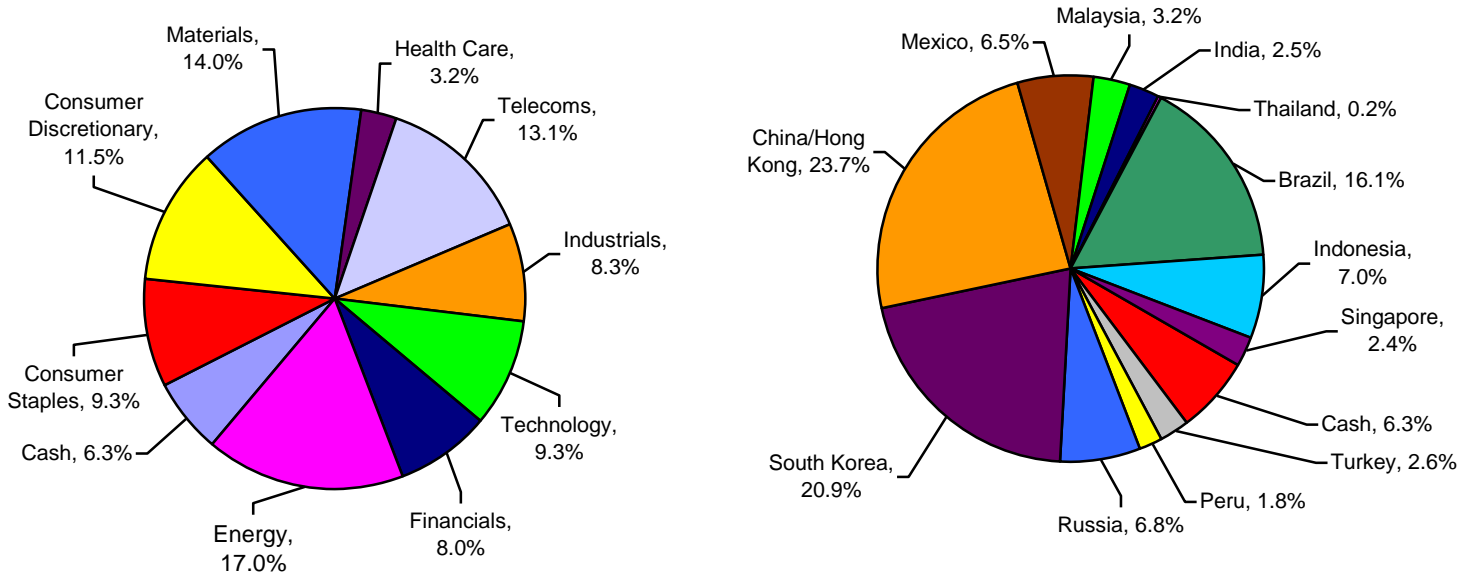
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#### Sector and country breakdown as at 30<sup>th</sup> November 2011



Source: Oldfield Partners LLP. Representative Portfolio used.

#### Commentary

Among the top performers by contribution during the month were First Pacific and KT&G. **First Pacific** (Hong Kong holding company) continues to trade at a 40% discount to its net asset value despite its holdings being listed. Management's recent focus on shareholder returns, through the dividend payout and share buybacks, coupled with holding solid businesses in the Philippines and Indonesia has translated into share price performance. **KT&G** (Korean tobacco) had a solid set of third quarter results, in which it gained domestic market share in tobacco (to 61% from 59% the prior year) and also grew its international and ginseng businesses. Year to date the share prices of these two holdings are up over 20% (in US dollar terms).

Among the bottom performers by contribution during the month were Ternium and Huabao International. We were disappointed by **Ternium** (Latin American steel producer) as it acquired a 27.7% voting stake in **Usiminas** (Brazilian steel producer). Ternium was in a comfortable net cash position, in contrast to much of its peer group, and expected to make bolt-on investments with the steel industry in the doldrums. Viewed strategically, buying into Usiminas is a solid long term move into the Brazilian market, where Usiminas is the largest producer of flat steel; however, the price Ternium has paid is high. Ternium joins the controlling group of Usiminas, and with a strategic partner has control, but the initial synergies between Ternium and Usiminas are minimal. It is arguable that on a replacement value basis the deal is realistic

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### OCTOBER 2011

versus Ternium building a greenfield project in Brazil. **Huabao** (Chinese flavour & fragrances) had first half results showing a slowdown in the growth of the core tobacco flavourings business. The company increased the dividend payout ratio to 50% including a special dividend. It trades on a price earnings ratio of 9, with net cash, and a dividend yield of 3.5% (excluding the special dividend).

There was more positive news on **Sino-Forest** (Chinese forestry) as the independent committee released its preliminary findings ahead of its final report due by year-end. It was a significant step in refuting the allegations made in the short seller report by Muddy Waters. The key points were that the committee was confident in the cash balances and forestry holdings reported in the financial statements, as evidenced by contracts and forestry bureau records. The company will appoint an independent surveyor to physically verify the forestry assets over the coming months. The main outstanding issue is the dealings with third parties, which has been difficult to address as they are private companies, and so not compelled to cooperate. Thereafter the negatives would revolve around the impact to the business, reputation, cost of the investigation, and that the Canadian authorities still need to be convinced to allow the shares to trade again. Sino-Forest has made an important first step in proving it is a real business with real assets.

We are building a position in **Thai Beverage**, the leading beverage company in Thailand, and a company we have held successfully in the past. The share price has been impacted by the recent flooding in Thailand. Some of its facilities have been shut by flood waters and the distribution chain impact will mean a poor fourth quarter. However the company has solid market shares in the alcoholic segment, especially spirits, and a growing non-alcoholic business. We view this setback as a buying opportunity. It trades on a price earnings multiple of 14 and a dividend yield of 5.5%.

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