

# OLDFIELD PARTNERS LLP

## EMERGING MARKETS INVESTMENT REPORT

### JANUARY 2012

#### Performance Summary as at 31<sup>st</sup> January 2012

US\$ terms	Emerging Markets Equity Composite	MSCI Emerging Markets (NDR)
January*	+11.3%	+11.3%
2011	-24.9%	-18.4%
Since Inception**	+534.8%	+296.9%
Since inception pa**	+18.1%	+13.2%

\*Estimate used for January 2012.

\*\*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	8.6	+4.6%	+7.5%
Embraer	7.6	+8.7%	+8.7%
Petrobras	7.4	+19.9%	+19.9%
First Pacific	6.8	+9.7%	+9.8%
Gazprom	6.6	+13.5%	+13.5%

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

\*\*Total return inclusive of dividends.

Source: Oldfield Partners LLP and Bloomberg.

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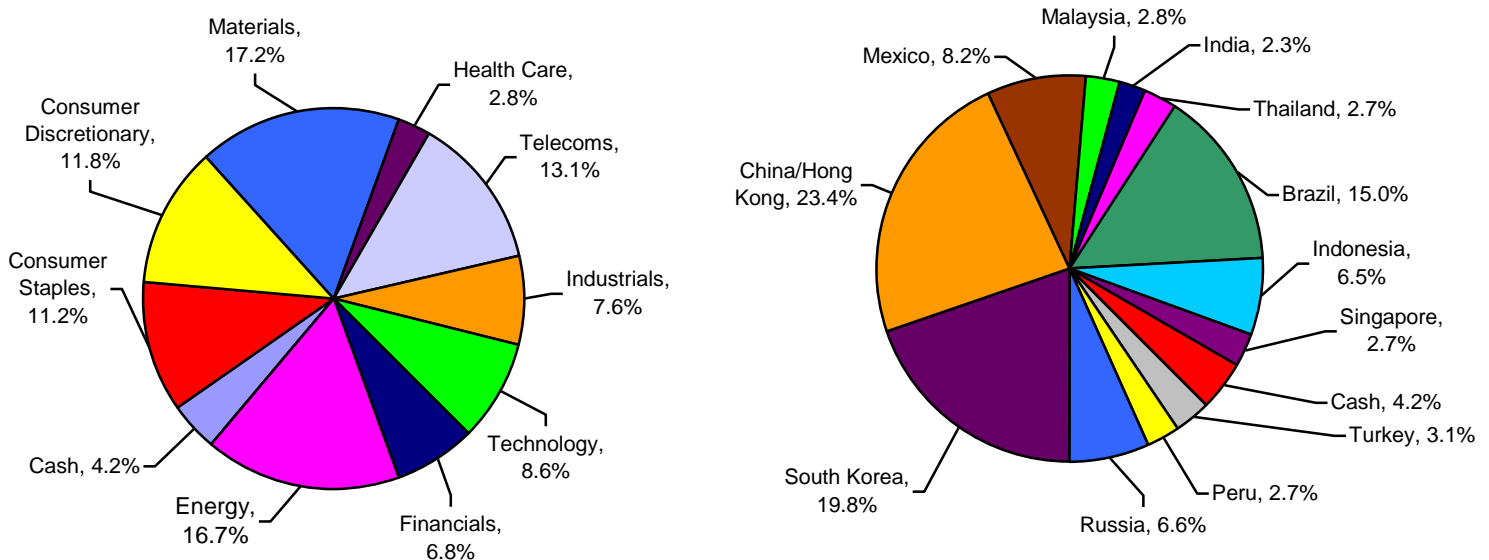
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#### Sector and country breakdown as at 31<sup>st</sup> January 2012



Source: Oldfield Partners LLP. Representative Portfolio used.

#### Commentary

Emerging markets have rallied strongly in the opening month of 2012. This follows on from the negative return seen in 2011. Latin America and Eastern Europe comfortably outperformed Asia over the month. Cyclical sectors outperformed defensive ones. The macro-economic backdrop for emerging markets, with the possible exception of Eastern Europe, looks reasonable with inflationary pressures rolling over and solid economic growth.

The top three performers by contribution over the month were **Huabao** (Chinese tobacco flavouring), **Petrobras** (Brazilian oil & gas), and **Geo** (Mexican homebuilder). Sentiment towards Geo was improved by the World Bank investing \$25 million for a stake in Geo's subsidiary that makes prefabricated homes, to help expand the supply of affordable homes in Mexico. The bottom two performers by contribution over the month were **Yue Yuen** (Hong Kong athletic shoes) and **Telkom Indonesia** (Indonesian telecoms). Yue Yuen's full year results were impacted by Chinese wage and productivity issues hampering margins. There were no additions or deletions to the number of portfolio holdings.

The independent committee at **Sino-Forest** (Chinese forestry) published its last report into the allegations raised by the short-seller Muddy Waters. To date the independent committee had successfully verified the cash balances and forestry rights, and the last report focused on third party dealings. In short the findings

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were inconclusive as the third parties could not be compelled to co-operate. The next stage is for the auditor to gain sufficient comfort to sign off on the delayed third quarter results and the Canadian authorities to allow the shares to trade. Both these remain uncertain. The corporate strategy from here will be influenced by the bondholders, whose interests may not always overlap with the equity holders. The company has appointed a forestry surveyor to independently document and value its forestry estate, and the management is considering all options including a complete sale of the company.

**Samsung Electronics** (Korean consumer electronics) reported its fourth quarter results during the month. This was another good set of results highlighting the strength in its semiconductor and telecom divisions. Samsung is a key beneficiary of the move to mobile devices, such as smartphones and tablet computers, and is far less reliant on the traditional personal computer market than in the past. Telecom now accounts for over 50% of its profits. The company produces an industry leading range of mobile devices of its own and components that are used in its competitors' offerings. Although Samsung has long dominated the traditional DRAM market, it is its strength in the speciality semiconductor areas, such as mobile-DRAM and logic chips, that is showing through. Samsung offers an industry leading, well diversified, and branded exposure to the move of consumers to the digital age. Nothing is certain forever in the consumer electronics space, as the rise and fall of giants like Apple and Sony attest to, but for now Samsung is in the driving seat. The first quarter is seasonally weak but management were cautiously optimistic for the year. Samsung Electronics trades on a price earnings ratio of 11, with net cash, and a 0.5% dividend yield.

**KT&G** (Korean tobacco) reported a disappointing set of fourth quarter results in the month. The tobacco business performed steadily, but the Ginseng (herbal remedy) business was disappointing with poor Chinese sales. The annual dividend was increased to give a 4.5% dividend yield. Following a price increase by BAT Korea and Japan Tobacco last summer KT&G had been able to regain market share, and late this month Philip Morris Korea followed by increasing retail cigarette prices by 8% (its first price increase since 2004). This leaves KT&G again in the position of being able to take further market share from the foreign players or selectively raise its prices.

We were heartened to see Disney offer to acquire the remainder of UTV Software Communications in India for an implied exit price earnings ratio of 22. This compares to the historic price earnings ratio of 9.5 for our holding in **Eros International** (Indian Bollywood films). This highlights the interest of Hollywood in Bollywood and its growth potential. Eros is in a leading position within the Indian film industry offering a breadth and scale of content to the growing Indian middle class.

The portfolio has a historic price earnings ratio of 11, price to book ratio of 1.6, and net debt to equity of 12%. When compared to historic valuations for the asset class this is attractive.

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