

# OLDFIELD PARTNERS LLP

## EMERGING MARKETS INVESTMENT REPORT

### MARCH 2012

#### Performance Summary as at 30<sup>th</sup> March 2012

| US\$ terms                  | Emerging Markets Equity Composite | MSCI Emerging Markets (NDR) |
|-----------------------------|-----------------------------------|-----------------------------|
| March*                      | -1.5%                             | -3.3%                       |
| 2012 to date                | +15.1%                            | +14.1%                      |
| 2011                        | -24.9%                            | -18.4%                      |
| Since Inception**           | +556.8%                           | +306.7%                     |
| Since inception per annum** | +18.2%                            | +13.3%                      |

\*Estimate used for March 2012.

\*\*Inception 01 Jan 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 LLP, Northern Trust, MSCI © and Bloomberg.

#### Performance of Five Largest Holdings\*

|                     | Portfolio Weighting* % | Monthly Performance (local terms**) | Monthly Performance (US\$ terms**) |
|---------------------|------------------------|-------------------------------------|------------------------------------|
| Embraer             | 8.7                    | +6.4%                               | +6.4%                              |
| Petrobras           | 7.8                    | -9.8%                               | -9.8%                              |
| Samsung Electronics | 7.4                    | +5.7%                               | +4.3%                              |
| First Pacific       | 7.2                    | -1.1%                               | -1.3%                              |
| SK Telecom          | 6.8                    | -3.7%                               | -3.7%                              |

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

\*\*Total return inclusive of dividends.

Source: Oldfield Partners LLP and Bloomberg.

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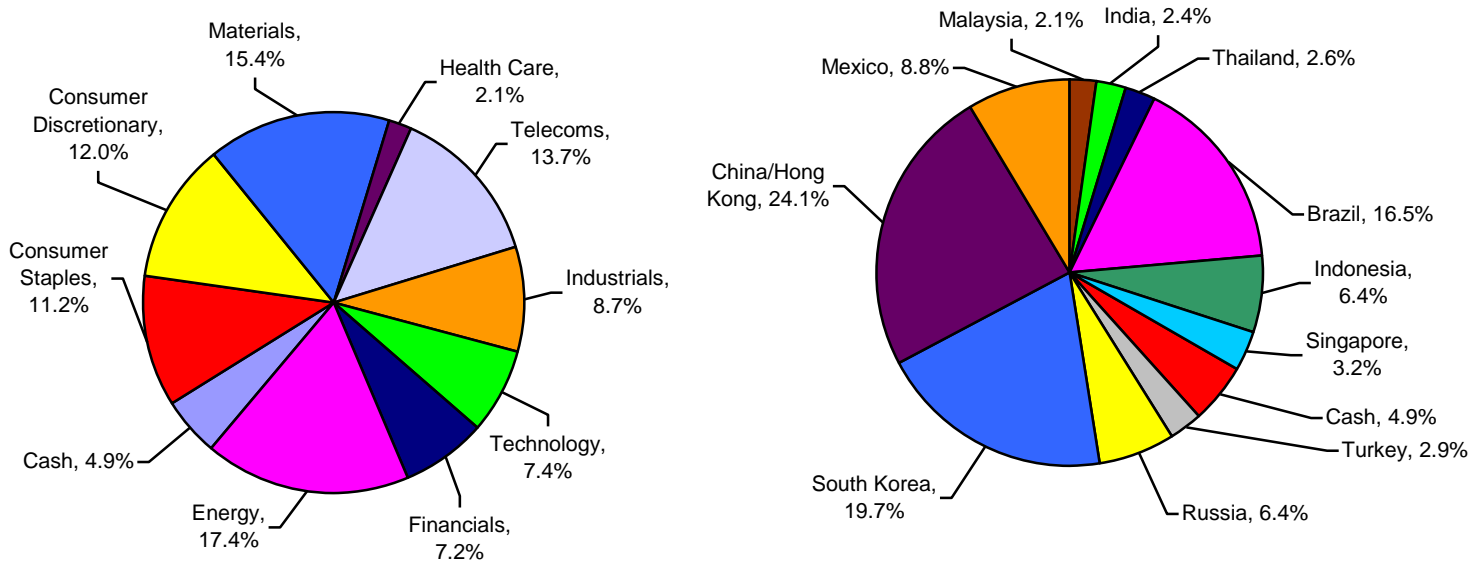
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#### Sector and country breakdown as at 30<sup>th</sup> March 2012



Source: Oldfield Partners LLP. Representative Portfolio used.

#### Commentary

Emerging markets have seen a solid rally in the first quarter, but experienced a pull back in March. Inflows into emerging market funds in 2012 to date total approximately \$26 billion, about half the amount of outflow from the prior year. Valuations remain reasonable and below their longer term averages for the MSCI index.

The top two performers by contribution during the month were Embraer and KT&G. **Embraer** (Brazilian regional jet manufacturer) is executing well in a favourable up cycle for the regional jet market. **KT&G** (Korean tobacco) continues to benefit from speculation that it will follow the competition in raising cigarette prices, perhaps coupled with government tobacco tax increases, after the coming Korean elections. Although KT&G has benefited from increased market share, from not following the competition, the benefit from price increases would be greater. KT&G trades on a price earnings ratio of 12.5 and a dividend yield of 4%.

The bottom two performers by contribution during the month were Petrobras and Lee & Man Paper. **Petrobras** (Brazilian oil & gas) benchmarks domestic fuel prices to international market prices, but has historically been deliberately tardy in adjusting to major moves in the oil price leading to discounts and premiums that affect investor sentiment. Currently the discount for gasoline and diesel prices has

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increased to 25% and 20% respectively. Also investors are keen to hear if the new CEO at Petrobras will reaffirm the existing strategic plan. Lastly in Argentina there are fears of spreading resource nationalisation and Petrobras has a small exposure to the country. **Lee & Man Paper** (Hong Kong packaging) has been a strong performer in 2012 with the share price up 44% in local currency, and with no changes to report we would expect a continued re-rating from a price to book ratio of 1.4.

**Sino-Forest** (Chinese forestry) filed for creditor protection in Canada and has put itself up for sale. If no buyers are found the bondholders have proposed the company assets are restructured into a new company that is 85% owned by the bondholders and 15% owned by the equity holders. The management highlighted that the reputational damage to Sino-Forest from the allegations last summer had led to severe deterioration in its ability to continue as a going concern. Despite a seven month independent investigation the company could not convince its auditors to sign off on its latest financial statements before a March 30<sup>th</sup> deadline. We have recommended the position be held at a zero price.

More positive news came from **Eros International** (Indian Bollywood films) as it announced its intention to delist from the London AIM market and move to the New York Stock Exchange. If successful it should provide greater liquidity and understanding for the shares.

We sold the remainder of the position in **Buenaventura** (Peruvian gold miner) at the end of the month. Following a honeymoon period for the mining industry after the recent elections there is a growing feeling among the local population and miners that the government is too lenient with the mining industry. Discontent and work stoppages are increasing in Peru, adding to the underlying rising costs for miners.

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