

# OLDFIELD PARTNERS LLP

## EMERGING MARKETS INVESTMENT REPORT

### MAY 2009

#### Performance Summary as at 29<sup>th</sup> May 2009

US\$ terms	Emerging Markets Equity Composite	MSCI Emerging Markets (NDR)
May*	+17.5%	+17.1%
2009 to date*	+30.1%	+37.9%
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**	+339.5%	+183.9%
Since inception pa**	+19.2%	+13.2%

\* Estimate used for May 2009.

\*\* 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

In February we wrote that a 'leap of faith' was required, as many stocks looked cheap, but there would be a lag before the earnings came through. This was most true of course for the cyclical stocks. The market has leapt and we are all in an uncomfortable period waiting to see if the earnings follow. Commentators have drawn the parallel to the 2002 and 2003 period. In 2002 the market rallied hard only to be disappointed, and re-test its lows, before the recovery came in 2003.

Each business cycle is different, and whilst there are lessons to be learned from each, it is not possible to know how this cycle will develop. There remain major imbalances in the global economy, and time will tell if they fade gracefully. We do not know what shape the recovery will take (V, W, L or otherwise). This uncertainty leads us to hold companies with solid balance sheets across the portfolio at this time, and the freedom of action that brings for our companies to increase leverage, make cheap acquisitions, or sit tight.

Oldfield Partners LLP,  
130 Buckingham Palace Road, London, SW1W 9SA.  
Telephone: +44 (0)20 7259 1000 Email: info@oldfieldpartners.com  
www.oldfieldpartners.com

Oldfield Partners LLP is authorised and regulated by the Financial Services Authority

Oldfield Partners LLP has approved and issued this communication for private circulation only; it must not be distributed to private customers. Information contained in this communication must not be construed as giving investment advice within or outside the United Kingdom. This is not an invitation to subscribe for any of the funds mentioned herein. Any reference to stocks is only for illustrative purposes and opinions expressed herein may be changed without notice at any time. The value of all investments and the income from them can go down as well as up; this may be due, in part, to exchange rate fluctuations. Past performance is not necessarily a guide to future performance. Oldfield Partners LLP does not warrant the accuracy, adequacy or completeness of the information and data contained herein and expressly disclaims liability for errors or omissions in this information and data. No warranty of any kind, implied, expressed or statutory, is given in conjunction with the information and data. © 2009 Partnership No. OC309959

# OLDFIELD PARTNERS LLP

## EMERGING MARKETS INVESTMENT REPORT

### MAY 2009

We can testify that our exposure to companies with stable earnings has been painful (relatively) over the last few months. We also have companies where the earnings visibility is less assured, but we believe the strength of the balance sheets and solid assets put them in good stead to wait for the eventual recovery. In both instances the valuation case of the individual companies has to be attractive for inclusion in the portfolio.

During the month we bought Ternium (Latin American steel) and Sinotrans Shipping (Chinese shipping), and we sold Chunghwa Telecom (Taiwanese telecom). At the month end the portfolio had 22 holdings.

**Ternium** is the second largest regional steel producer in Latin America with its main operations in Mexico and Argentina. The Mexican operations account for 60% of revenues. Flat steel accounts for approximately 85% of revenues. It has high market shares for its products in its key local markets. Ternium used to have assets in Venezuela, but they were seized by the Chavez administration in 2008. Understandably the company was de-rated, left in a highly leveraged position, facing a sharp cyclical downturn. However, this month Ternium received a surprisingly reasonable compensation deal for these expropriated assets of \$1.9 billion, which will leave the company debt free and in a solid position to weather this downturn. The company trades on 0.5 times book value.

**Sinotrans Shipping** is an operator of mainly dry bulk ships. The Sinotrans group has 50 years of industry experience. The fallout from the sharp downturn in world trade has devastated the valuations of this highly cyclical sector, and often for good reason. However, the valuation of this stock stood out to us as being unreasonably depressed. Sinotrans Shipping had net cash equivalent to its market capitalisation (the proceeds from its November 2007 listing). The fleet of 36 owned vessels is relatively young (ten years average), and capex needs are modest. These ships are not worthless. Freight rates have begun to increase and the company has low operating costs. Half its fleet are on long term contracts. The company trades at book value.

We decided to sell **Chunghwa Telecom** as it was trading close to our price target, and we felt there were other investment opportunities with higher upside. The euphoria surrounding the China Mobile investment in a Taiwanese competitor provided a positive back-drop to our exit.

The surprise of the month came from a rights issue in **Lonmin** (South African platinum miner). Management felt the need to bullet proof the balance sheet against the possibility of a further downturn in the trading environment. At the end of April the company had successfully completed a debt refinancing, and the company had a net debt to equity ratio of 12%. The rights issue would leave the company almost debt free. We will exercise our rights as we believe the company to be cheap against its asset base, and are content to wait for a recovery in the automotive industry.

Oldfield Partners LLP,  
130 Buckingham Palace Road, London, SW1W 9SA.  
Telephone: +44 (0)20 7259 1000 Email: info@oldfieldpartners.com  
www.oldfieldpartners.com

Oldfield Partners LLP is authorised and regulated by the Financial Services Authority