

OLDFIELD PARTNERS LLP

EMERGING MARKETS INVESTMENT REPORT

MAY 2011

Performance Summary as at 31st May 2011

US\$ terms	Emerging Markets Equity Composite	MSCI Emerging Markets (NDR)
May*	-6.0%	-2.6%
2011 to date	-4.5%	+2.5%
2010	+22.3%	+18.9%
Since Inception**	+625.4%	+347.7%
Since inception pa**	+21.0%	+15.5%

*Estimate used for May 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	8.6	+1.0%	0.0%
Petrobras	7.2	-5.1%	-5.1%
KT&G Corp	6.8	-0.2%	-1.1%
SK Telecom	6.6	-6.8%	-6.8%
Embraer	6.2	-0.6%	-0.6%

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

**Total return inclusive of dividends.

Source: Oldfield Partners LLP and Bloomberg.

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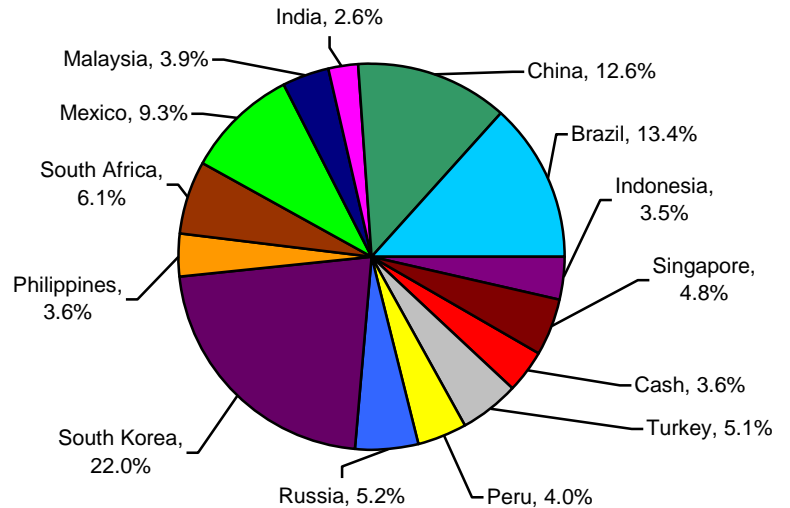
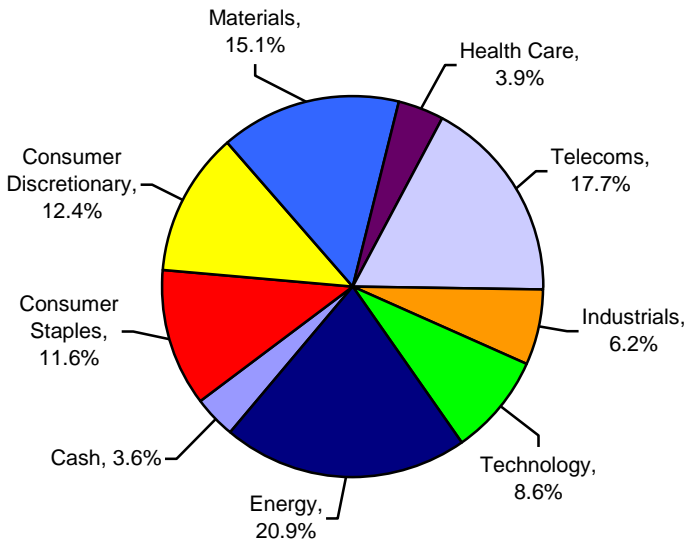
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Sector and country breakdown as at 31st May 2011



Source: Oldfield Partners LLP. Representative Portfolio used.

Commentary

Equity markets remain on edge as global economic growth is questioned whilst inflationary pressures mount. On the whole, the market favored stable earners over more cyclical stocks this month. The performance of the portfolio was not flattering.

Our Chinese holdings, Chaoda and Sino-Forest, performed particularly poorly in the month and into June. There has been a spate of Chinese corporate scandals and failures from Chinese companies listed on overseas markets. The SEC has launched an investigation into Chinese companies that have listed in the US by reverse takeovers.

Chaoda (Hong Kong listed Chinese agriculture) was impacted by an article in 'Next' magazine, a tabloid in Hong Kong. The main allegation was that the company overstated its land reserves. It looked a poorly researched article. The key part of the article was the researcher going to one of Chaoda's farms and asking how big it was, and comparing this to company filings - without considering there may be other Chaoda farms in the area. Chaoda have rebutted the claims, bought back over 1% of its shares, and are taking legal action. We bought a little more also.

The allegations against **Sino-Forest** (Canadian listed Chinese forestry) look more seriously researched by a short seller publishing under the title 'Muddy Waters'. The key allegations are that the company

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has overstated its land and entered into deals with third parties that are not at arms length. Sino-Forest has vigorously refuted the allegations and responded quickly by setting up an independent committee to investigate and by publishing its land titles for the areas concerned. Again it seems the researcher confused land in one area as being all the land held by the company in the province. They also confused a specific transaction to sell standing forest as one to fell trees (which would have exceeded the local quota). The publication was well timed as Sino-Forest had delayed its results because of a move to IFRS accounting, which had been well flagged, but made the market nervous. It will report on June 14th as planned.

The share price of Chaoda has fallen 30% and Sino-Forest by 70% since the beginning of May. Before the share price fall Chaoda was a 3.5% position and Sino-Forest a little under a 4% position. Both share prices are likely to remain volatile over the medium term.

Both of these events highlight investor concerns with Chinese companies - in particular relating to land titles. Foreign listed Chinese companies are likely to remain the target of negative publicity and their share prices highly volatile. Short sellers have spotted a theme to exploit, bringing back memories of bank shares during the banking crisis, and will continue to punish a range of Chinese companies. Investor nerves will at best depress valuations (to low single digit price earnings ratios for Chaoda and Sino-Forest) and at worst make this area a 'no go zone' for some time.

The above events have overshadowed a decent performance in the month by **Buenaventura** (gold miner in Peru) and **Samsung Electronics** (Korean consumer technology). However, the Presidential election in Peru could take the shine off the mining sector. **Geo** (Mexican home builder) was a poor performer as the market worried that its growth plans might lead to an equity issue.

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