

OLDFIELD PARTNERS LLP

EMERGING MARKETS INVESTMENT REPORT

JULY 2012

Performance Summary as at 31st July 2012

US\$ terms	Emerging Markets Equity Composite	MSCI Emerging Markets (NDR)
July*	+2.7%	+2.0%
2012 to date	+4.3%	+6.0%
Since inception**	+494.9%	+277.7%
Since inception per annum**	+16.6%	+12.2%

*Estimate used for July 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**)
Samsung Electronics	9.7	+9.0%	+10.2%
Embraer	7.8	-4.3%	-4.3%
First Pacific	7.4	+8.6%	+8.7%
Petrobras	7.3	+4.9%	+4.9%
SK Telecom	6.5	+14.6%	+14.6%

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

**Total return inclusive of dividends.

Source: Oldfield Partners LLP and Bloomberg.

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

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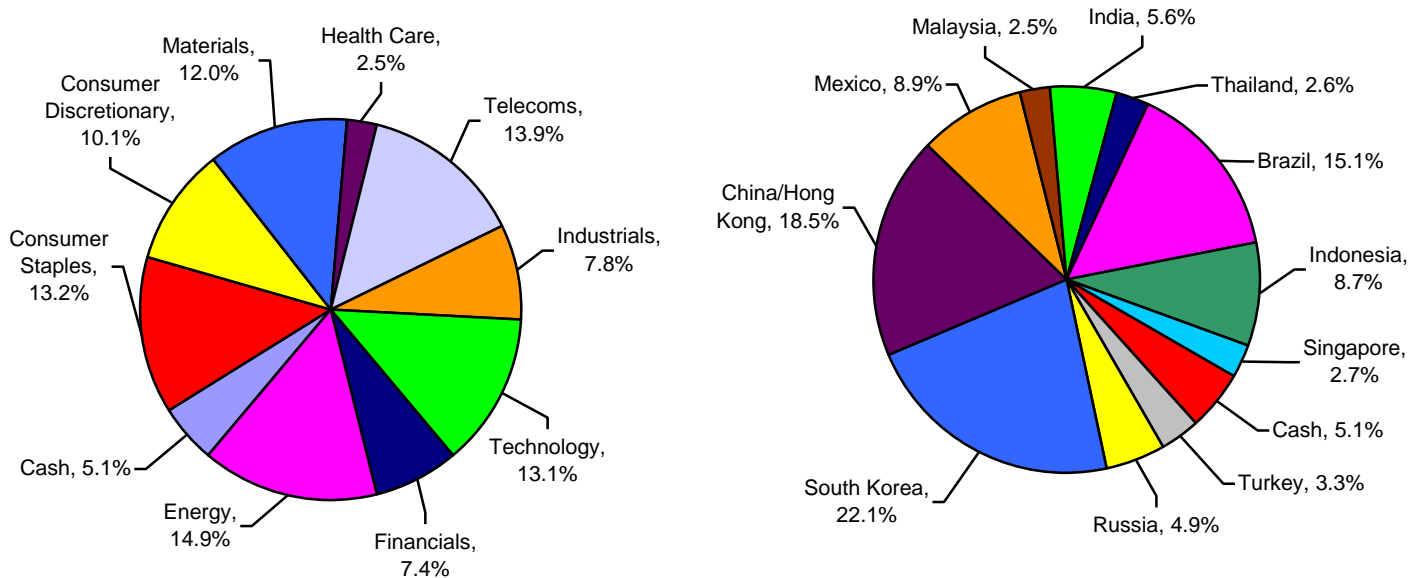
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Sector and country breakdown as at 31st July 2012



Source: Oldfield Partners LLP. Representative Portfolio used.

Commentary

The volatility in equity markets has continued through the summer. The trench war between 'risk on' and 'risk off' continues; as central bankers whistle-in another rally on the equity markets we wait to see if it is cut short by heavy machine gun fire once again. Overall the portfolio has a cyclical skew to it. Valuations provide a comforting backdrop with the MSCI Emerging Markets index on a price to book ratio of 1.5 and a historic price to earnings ratio of 10.7.

The bottom three performers by contribution during the month were Embraer, Eros, and Corporacion Geo. **Embraer** (Brazilian regional jet manufacturer) had solid second quarter results and raised its margin guidance for the year, but the market remains concerned on the lack of new orders. The order backlog of US\$12.9 billion is about 2 years worth of deliveries, and below the order book average of 3 years. **Eros International** (Indian Bollywood films) remains in the doldrums following the postponement of its US listing (due to volatile equity markets). The full year results during the month showed the growth story continues with sales increasing 25%. It trades on a price earnings ratio of 8. **Geo** (Mexican homebuilder) had reassuring second quarter results with volumes up 6% and average selling prices up 6%, and importantly with positive free cash flow for the quarter. However full year free cash flow guidance was reduced substantially. A recent visit to Geo in Mexico has reassured us on the move to vertical

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construction (medium rise buildings) and pre-fabricated construction techniques. It trades on a price earnings ratio of 5.5 and a price to book ratio of 0.9.

The top two performers by contribution during the month were SK Telecom and First Pacific. **SK Telecom** (Korean wireless telecom provider) is benefiting from the growth in 4G despite marketing costs increasing again on fierce competition. The undemanding valuation of 7.5 times earnings and a 6.5% dividend yield have attracted investors. **First Pacific** (Hong Kong diversified holding company) has investments in listed companies in the Philippines and Indonesia. First Pacific trades at a 40% discount to its net asset value despite the underlying holdings, which are solid companies in their own right, being listed and liquid.

We bought **Infosys** (Indian IT services) during the month. The company faces a tough demand outlook with IT budgets remaining tight, and the banking sector and Europe weak. Visibility is so poor Infosys has suspended its quarterly guidance. Clients remain sticky in this industry with a high percentage of repeat business, but are being more aggressive on pricing in this downturn. Depreciation of the Indian currency is helping margins. Infosys has continued to hire personnel leading to low levels of utilisation (66%), but Infosys has the flexibility to adjust its cost structure and a strong net cash position to weather the downturn. We believe that the IT services industry remains a long term growth industry, that Infosys is well placed within it, and that this is a cyclical dip. The stock trades on a forward price earnings ratio of 13, is free cash flow positive, and 15% of its market capitalisation is net cash.

We are approaching US\$500 million of assets in the emerging market portfolios which we manage. At this level of assets we had always intended to, and now will, take a three month break from new inflows. We will continue to accept inflows from existing clients throughout this period, and we are always delighted to hear from those with interest in investing.

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