Oldfield Partners LLP
Emerging Markets Investment Report
July 2013

Performance Summary as at 31st July 2013

US$ terms	Emerging Markets Equity Composite	MSCI Emerging Markets*
July**	+2.3%	+1.0%
2013 to date	-1.3%	-8.6%
Since inception***	+564.5%	+285.1%
Since inception per annum***	+16.2%	+11.3%

*Net Dividends Reinvested.
**Estimate used for July 2013.
***Inception 1st January 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 (USD terms**)
Samsung Electronics	9.4	-4.6%	-3.1%
Infosys	7.6	+20.6%	+20.6%
Embraer	7.2	-7.9%	-7.9%
KT&G	7.0	+2.0%	+3.6%
First Pacific	6.7	+5.5%	+5.5%

*As at end of period, using a representative portfolio.
**Total return inclusive of dividends.
Source: Oldfield Partners LLP and Bloomberg.

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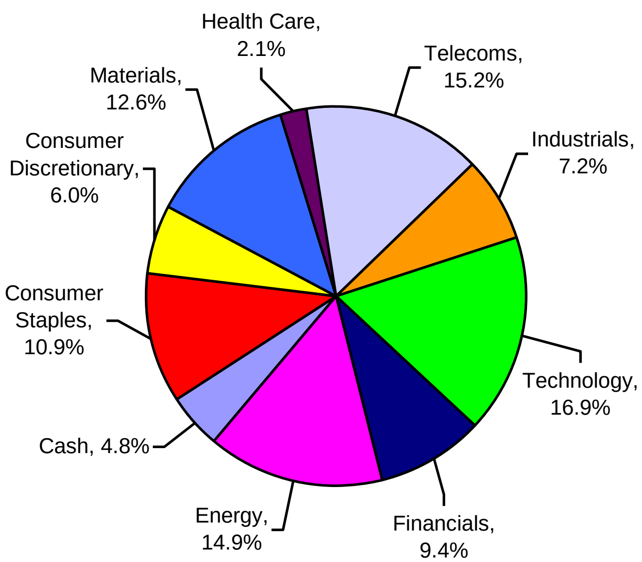
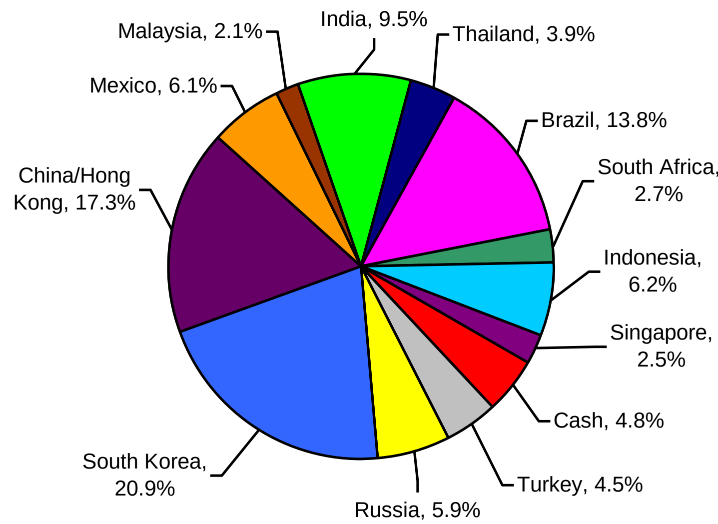
EMERGING MARKETS INVESTMENT REPORT
JULY 2013

Sector and country breakdown as at 31st July 2013





Source: Oldfield Partners LLP. Representative Portfolio used.

Commentary

The background for emerging market equities remains difficult with a slowing China and the likelihood of US monetary policy changes to come. However, valuations for emerging markets have corrected and look more attractive. Investors in emerging markets continue to favour more defensive exposure and are willing to pay for this with higher valuations. Cyclical sectors are now cheaper relative to defensive sectors than at the last trough in late 2008. The trouble being that if China slows steadily, or changes the drivers of its economic growth, looking at past valuations for some stocks may be less helpful. One potential solution for emerging market investors is to be highly selective in their cyclical stock picking.

We do not know how far the Chinese economy will slow. It seems clear that the administration wish to slow the economy steadily (it has grown at 10% p.a. over the last 30 years) and shift the economic model towards greater consumption (perhaps now only 35% of GDP). The emphasis is on ‘quality’ not ‘quantity’ of economic growth. China is soon to pass through a demographic inflection point. The working age to dependents ratio is soon to fall and also the number of rural inhabitants that can be moved to factory work is diminishing. The surplus of low income working age population in prior decades was ideal (and politically expedient) for the growth of basic industries, such as construction and manufacturing. Economically and politically a transition towards consumption now works for China (and could also help correct imbalances in

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the global economy), but its success is far from given. Many countries do not escape the 'middle income trap'. The administration must address difficult social and financial reform, increase productivity and move up the value chain, reduce overcapacity in most basic industries, and the mounting bad debts from the past (mis)allocation of capital. Helpfully China has a closed banking system under government direction and is in a relatively healthy financial position. This transition will be a slow process, with successes, failures, and periods of back tracking, but the winners of the last 30 years of the China growth experience are likely to be different going forward as the suppression of the Chinese consumer ends.

Over the summer months it is often quieter for company news flow. One positive news item has come from **Chaoda Modern** (Chinese agriculture) that has released a refute of the allegations made against it in a short seller note in 2011. It has issued a timetable to produce all outstanding financial statements (March 2014) and for the share price to be un-suspended (April 2014). Uncertainty still remains, but this is another positive step.

The bottom two performers during the month by contribution were Embraer and Thai Beverage. **Embraer** (Brazilian regional jet manufacturer) had slightly disappointing second quarter results. However a $17.1 billion order book and the likelihood of further orders to come remains a key positive. **Thai Beverage** (leading beverage company in Thailand) awaits a strategy update from management in the third quarter.

The top two performers during the month by contribution were Infosys and Lee & Man Paper. **Infosys** (Indian IT services) posted good revenue growth in its first quarter results raising expectations. The recovery for the company will remain bumpy. **Lee & Man Paper** (Chinese packaging materials) share price bounced back on hopes of price increases and more positive sentiment towards Chinese economic growth. It is worth noting that the key end market for packaging in China is the consumer sector.

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