

# OLDFIELD PARTNERS LLP

## EMERGING MARKETS INVESTMENT REPORT

### AUGUST 2011

#### Performance Summary as at 31<sup>st</sup> August 2011

US\$ terms	Emerging Markets Equity Composite	MSCI Emerging Markets (NDR)
August*	-10.9%	-8.9%
2011 to date	-19.4%	-8.5%
2010	+22.3%	+18.9%
Since Inception**	+512.5%	+299.7%
Since inception pa**	+18.5%	+13.9%

\*Estimate used for August 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	9.1	-11.8%	-12.7%
Petrobras	7.9	-12.5%	-12.5%
Embraer	7.5	-13.7%	-13.7%
KT&G Corp	6.8	+4.9%	+3.9%
Gazprom	6.6	-13.5%	-13.5%

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

\*\*Total return inclusive of dividends.

Source: Oldfield Partners LLP and Bloomberg.

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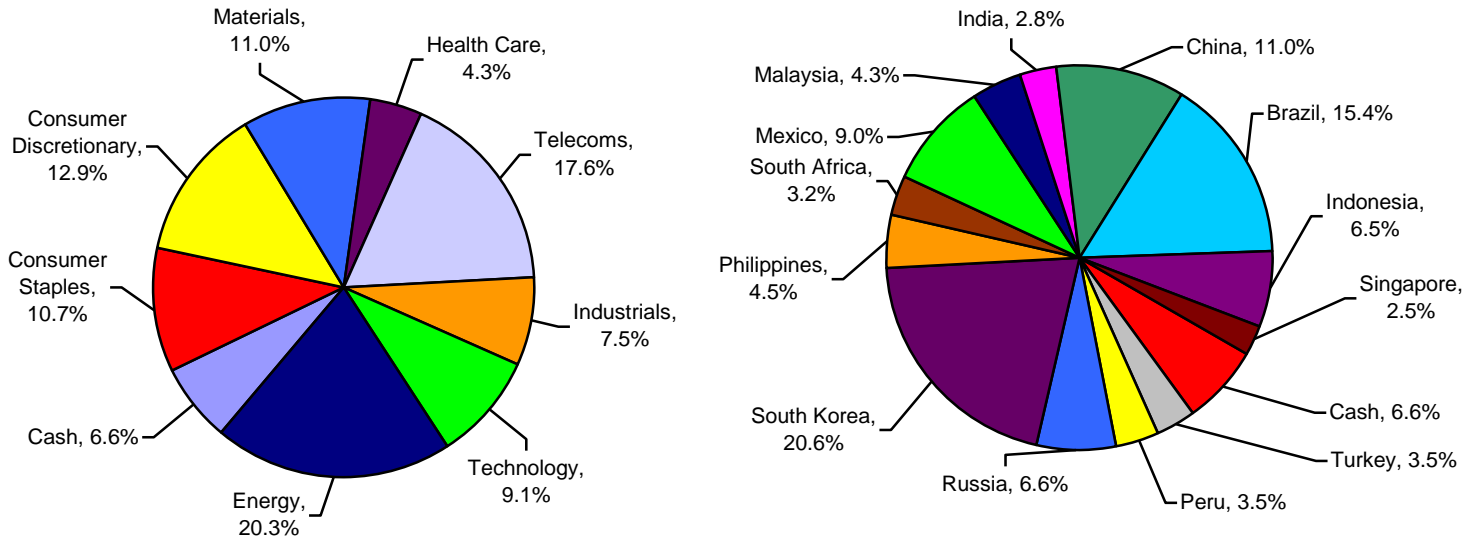
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#### Sector and country breakdown as at 31<sup>st</sup> August 2011



Source: Oldfield Partners LLP. Representative Portfolio used.

#### Commentary

August was a difficult month for emerging market equities. The valuation of the MSCI Emerging markets index has been at its long term average on a number of metrics for much of this year, and is now some way below, but well above the trough valuations last seen in 2008. The index is trading on 10.5 times historic earnings and at 1.7 times book value. Year to date emerging markets have seen an outflow of over \$26 billion (and to put this in context the 2008 outflow was \$50 billion).

The bottom three performers by contribution during the month were Sino-Forest, Samsung Electronics, and Petrobras. **Sino-Forest** (Chinese forestry) was suspended by the Canadian regulator on suspicion of overstating land, inflating revenues, and engaging in non-arm's length transactions. The saga has been running since June when a short-seller alleged wrong-doing at the company. The company set up an independent review panel to address the allegations. The investigations of this review panel have led to the suspension of a small number of employees and to the resignation of the CEO. The independent review panel should release its final report in the coming weeks. Until this report is published we do not know the extent or scope of the wrong-doing or its implications. We have sold half of our holding in this company, and had reduced prior to this news. It is currently a 0.5% weight in the portfolio. The fall in the share price in August accounted for a little less than 2% of the portfolio's negative performance. Prior to this episode Sino-Forest was held in high regard in China and the West, had a solid and reputable independent board, and used a top international auditor. We saw it as a stock having significant upside

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potential, though with substantial accompanying risks – of which we would only have a few such stocks in the portfolio at any one time. Clearly we got this investment wrong.

**Samsung Electronics** (Korean consumer electronics) is facing off against Apple in a dispute regarding its wireless products. Samsung Electronics competes against Apple, but is also a key component supplier to Apple. The component business is of more importance and here the relationship between the two remains on a firmer footing. Disputes of this nature are not uncommon in the consumer electronics business but need watching. Samsung Electronics is trading on an attractive valuation of 8 times earnings. **Petrobras** (Brazilian oil & gas) was weak as the oil price came under pressure with investors worried about a slowdown in the global economy.

The top three performers by contribution during the month were Buenaventura, KT&G, and Huabao International. These are all stocks with defensive characteristics. **Buenaventura** (Peruvian gold miner) performed well as the gold price moved up and investors became more comfortable with the new Peruvian administration. **KT&G** (Korean tobacco) had an uneventful month. It trades on a price earnings ratio of 11 and 4% dividend yield. **Huabao International** (Chinese flavours & fragrance producer) is a new addition to the portfolio. Its main business is tobacco flavouring, where it has 50% market share and supplies to all the top ten Chinese tobacco companies. The stock trades on a price earnings ratio of 11, has net cash, and scope to increase its dividend.

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