

OLDFIELD PARTNERS LLP

EMERGING MARKETS INVESTMENT REPORT

AUGUST 2012

Performance Summary as at 31st August 2012

US\$ terms	Emerging Markets Equity Composite	MSCI Emerging Markets (NDR)
August*	+1.6%	-0.3%
2012 to date	+6.0%	+5.6%
Since inception**	+504.5%	+276.5%
Since inception per annum**	+16.7%	+12.0%

*Estimate used for August 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	8.8	-5.8%	-6.1%
Embraer	8.4	+6.2%	+6.2%
Petrobras	7.6	+8.1%	+8.1%
First Pacific	6.9	-4.4%	-4.4%
SK Telecom	6.6	+3.4%	+3.4%

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

**Total return inclusive of dividends.

Source: Oldfield Partners LLP and Bloomberg.

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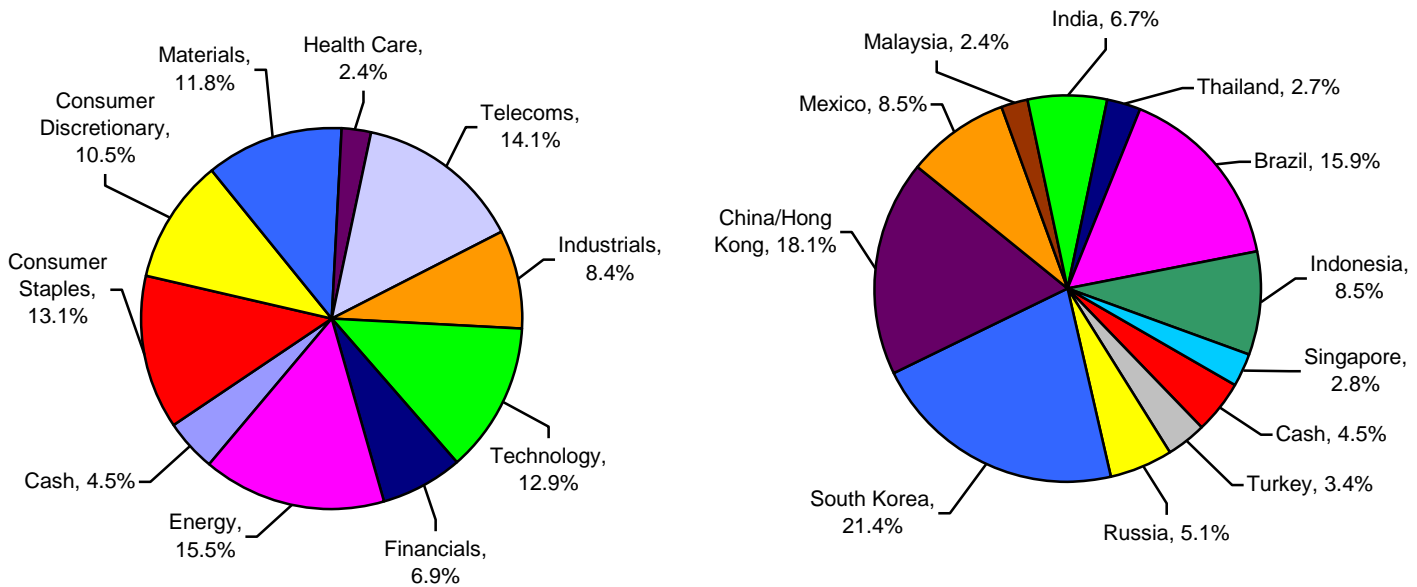
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Sector and country breakdown as at 31st August 2012



Source: Oldfield Partners LLP. Representative Portfolio used.

Commentary

The bottom three performers by contribution during the month were Samsung, First Pacific, and Yue Yuen. **Samsung Electronics** (Korean consumer electronics) was weaker this month due to a US court ruling on a patent dispute between Apple and Samsung. The US jury verdict was a clear disappointment for Samsung, given a backdrop of wins and losses in similar court cases worldwide. The market had expected the Californian verdict to be more Apple friendly, but not to this extent: a total Apple victory. The \$1bn penalty awarded is not significant financially, although the judge could increase, and it is the potential to enact US sales bans that are painful and disruptive. Apple had sought redress in two main areas: design and software. The design infringements affect the older products and should be viewed as backward looking. The newer Samsung products are more differentiated & have their own character. The software patents affect all the product range, but can often be reprogrammed quickly to satisfy a court verdict. Importantly it is normal to launch new models frequently, and future models should not be affected as they will be designed around the US verdict. The US is an important market, but not the most important market for Samsung Electronics, and even a worst case scenario of a complete sales ban on all its smartphone products in the US would mean an 8% impact on earnings. The legal battle will continue through the appeals process. **First Pacific** (Hong Kong diversified holding company) had subdued first half results due to the weaker results of two of its underlying holdings: **Philex** (Philippine gold miner) and **PLDT** (Philippine

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telecom). Philex was impacted by a decline in its average ore grade and a suspension of operations at its main mine after heavy rainfall. PLDT saw increased competition and costs associated with an employee reduction program led to a lower margin in the first half. First Pacific reconfirmed its 25% dividend payout and 10% share buyback policies. First Pacific trades at a 43% discount to its net asset value. **Yue Yuen** (Hong Kong footwear manufacturer) had third quarter results showing an improved margin on the manufacturing side, despite a weaker European result, but a continued weak result for the Chinese retail operations due to inventory clearing. The recovery in the manufacturing margin highlights lower raw material costs and that the factories are returning to normalised productivity levels following its expansion to the inner provinces in China.

The top three performers by contribution during the month were Petrobras, Embraer, and Eros. **Petrobras** (Brazilian oil & gas) had disappointing second quarter results on weak production, domestic pricing below international parity, and a write off of exploratory expenses; but a rising oil price saved the share price. **Embraer** (Brazilian regional jet manufacturer) will continue to be volatile as investors weigh the prospect for new orders bolstering its order backlog, which stands at 2 years worth of production. In the US 50 seat jets account for over 40% of the installed base, in contrast to 25% worldwide, reflecting the growth phase in US regional jets back in the time of cheap oil. These planes are no longer economic. Over time as the US fleet of 50 seat jets ends its useful life there is the prospect of a meaningful pick-up in orders for Embraer. **Eros** (Indian Bollywood films) is seeing strong underlying trading and investors continue to wait and see if management will progress with the move to a US listing in the near term. Eros trades on a price earnings ratio of 8.5.

We have no special insight into the macro-political issues that continue to buffet equity markets, but are comforted by the valuations of emerging markets in general and of the portfolio, which currently has 65% upside based on the weighted aggregate of our share price targets.

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