

OLDFIELD PARTNERS

EMERGING MARKETS INVESTMENT REPORT

AUGUST 2014

Performance Summary as at 31st August 2014

USD terms	Emerging Markets Equity Composite	Index*
August**	+3.5%	+2.3%
2014 to date**	+11.9%	+10.6%
1 year	+22.7%	+20.0%
3 years annualised	+9.3%	+4.3%
5 years annualised	+9.4%	+7.9%
Since inception***	+699.4%	+354.1%
Since inception annualised***	+16.4 %	+11.7%

*MSCI Emerging Markets (Net Dividends Reinvested).

**Estimate used for August 2014.

***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, Northern Trust, MSCI © and Bloomberg.

Performance of Five Largest Holdings*

	Portfolio Weighting* (%)	Monthly Performance (local terms**)	Monthly Performance (USD terms**)
Petrobras	8.3	+23.7%	+23.7%
SK Telecom	7.7	+5.7%	+5.7%
Buenaventura	7.4	+24.3%	+24.3%
Embraer	7.4	+1.9%	+1.9%
Thai Beverage	6.8	+16.5%	+16.3%

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

**Total return inclusive of dividends.

Source: Oldfield Partners and Bloomberg.

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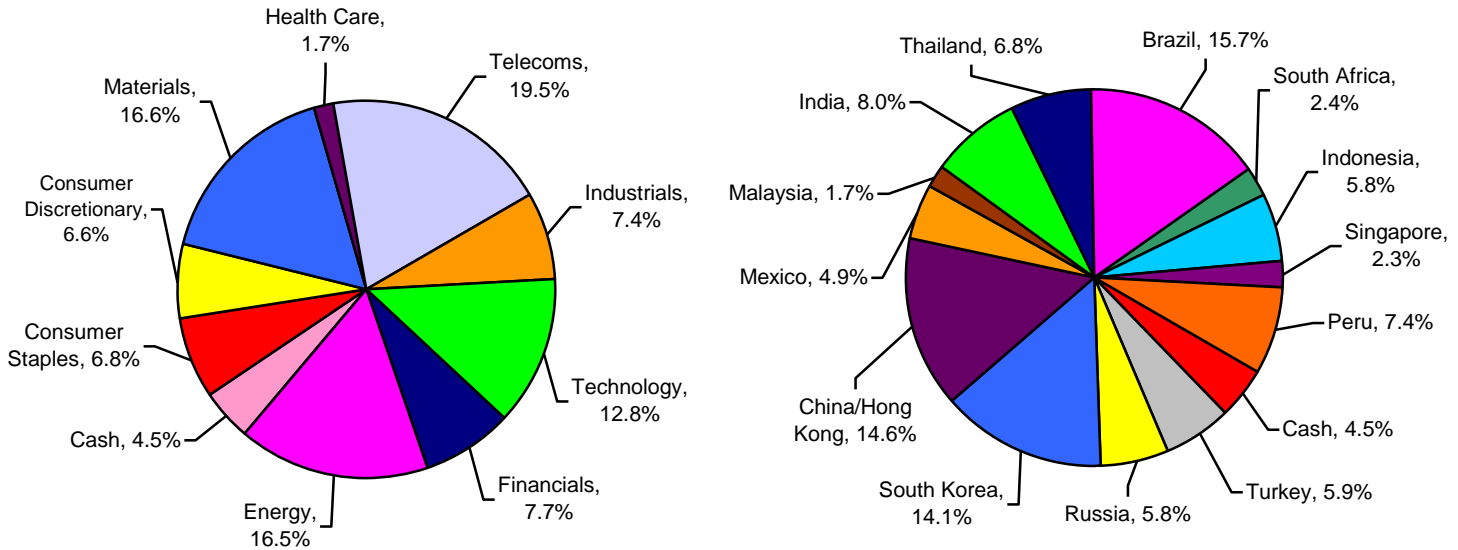
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Sector and country breakdown as at 31st August 2014



Source: Oldfield Partners. Representative Portfolio used.

Commentary

Emerging market equities have continued to rally in the month. The MSCI Emerging Market Index is now about 20% below the peak of 2007. The valuation of the index remains reasonable on a price to book ratio of 1.6 and a price earnings ratio of 13, which are both below their longer term historic averages.

The worst performers during the month by contribution were Turkcell, Samsung Electronics, and Yue Yuen. **Turkcell** (Turkish mobile provider) has moved closer to a resolution of its key shareholder's dispute. Competition in the three player Turkish mobile market remains tough, but the growth of smartphones and data usage is a positive. **Samsung Electronics** (Korean consumer electronics) is being squeezed by the resurgence of Apple with the upcoming iPhone 6 and by lower priced Chinese competitors. The key mobile handset division is under pressure as commoditisation of smartphones sets in. It trades on a price earnings ratio (excluding cash) of 4.5 and price book ratio of 1.3 which looks remarkably cheap. **Yue Yuen** (Hong Kong footwear manufacturer) continues to grapple with the move of production from China to lower cost countries. Over the summer Chinese workers have won industrial action to demand higher compensation. China now accounts for 30% of production, falling to 25% over the next few years; so much of the pain has passed. It trades on a price earnings ratio of 13 and price book ratio of 1.2.

The top performers during the month by contribution were Petrobras, Buenaventura, and Thai Beverage. **Petrobras** (Brazilian oil & gas) has posted solid growth in oil production over the last few months, largely

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from the new pre-salt fields, and benefited from a shift of voter interest in the upcoming Brazilian presidential elections towards a more market friendly candidate. **Buenaventura** (Peruvian miner) posted poor second quarter results, but maintained guidance for the year end suggesting a strong second half. In a key mine it has been digging through lower quality ore. We have used the weakness in the share price over the summer to increase our position. **Thai Beverage** (Thailand's leading alcoholic beverage producer) has performed well despite a difficult consumer backdrop following continued political upheaval. The spirits business continues to do exceedingly well and the beer business continues to recover.

During the month we sold **KT&G** (Korean tobacco), which had exceeded our price target. Investor interest in the likelihood of an increase in the tobacco tax late this year and the Korean government's call for companies to pay higher dividends pushed up the share price. It trades on a price earnings ratio of 21.

Lukoil (Russian oil) continues to be volatile with the backdrop of the Ukrainian crisis and sanctions against Russia. To date sanctions impacting Lukoil has been minimal, and pushing up energy prices would most likely be a last resort for the western governments. Putin's continued destabilisation of eastern Ukraine looks to be to achieve three aims: first, to consolidate the Crimea to the extent that no one will seek its return; second, to get agreement that the Ukraine will not join NATO, and third, if possible to make eastern Ukraine a buffer state or province. The timing of the political decisions needed to resolve the crisis is highly uncertain. Putin continues to enjoy strong domestic approval, and Russia and its satellite countries (the Eurasian Union) have forged stronger links with China. Lukoil trades on a price earnings ratio of 5.5 and a dividend yield of 6%.

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