

OLDFIELD PARTNERS LLP

EMERGING MARKETS INVESTMENT REPORT

OCTOBER 2011

Performance Summary as at 31st October 2011

US\$ terms	Emerging Markets Equity Composite	MSCI Emerging Markets (NDR)
October*	+9.9%	+13.2%
2011 to date	-20.3%	-11.5%
2010	+22.3%	+18.9%
Since Inception**	+505.6%	+286.6%
Since inception pa**	+18.1%	+13.3%

*Estimate used for October 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	9.4	+15.2%	+22.4%
Embraer	7.5	+9.7%	+9.7%
Petrobras	7.5	+22.1%	+22.1%
First Pacific	6.9	+17.7%	+18.0%
Gazprom	6.5	+20.4%	+20.4%

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

**Total return inclusive of dividends.

Source: Oldfield Partners LLP and Bloomberg.

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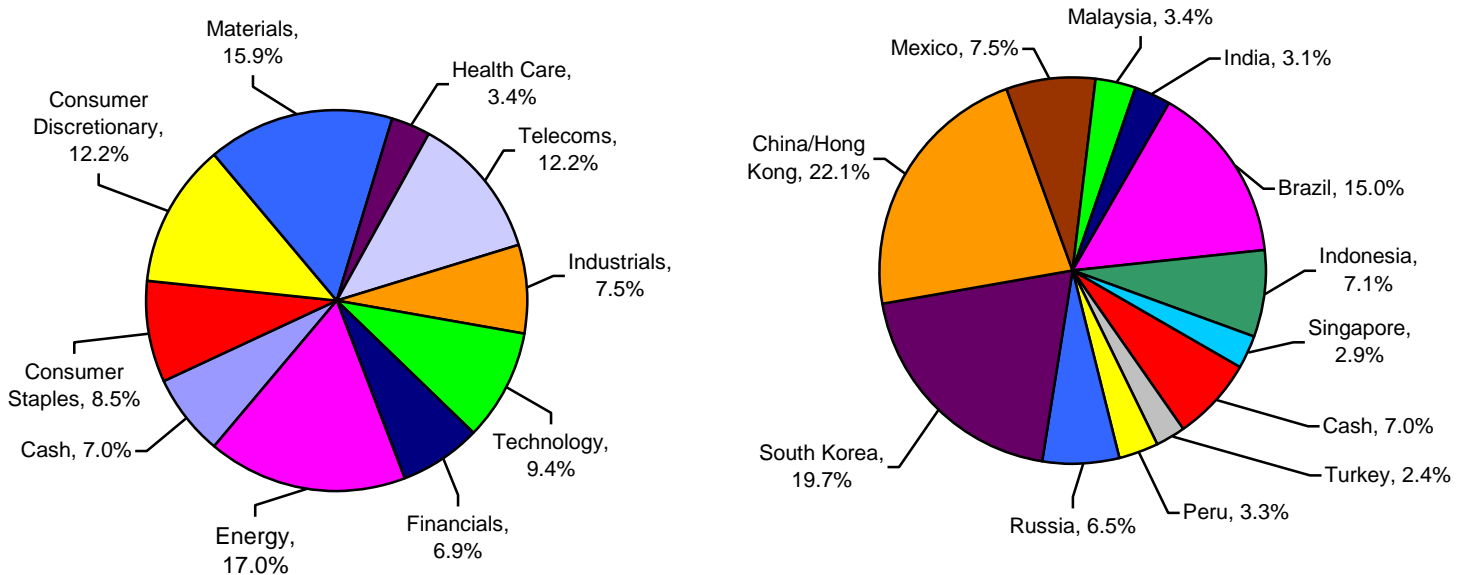
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Sector and country breakdown as at 31st October 2011



Source: Oldfield Partners LLP. Representative Portfolio used.

Commentary

October saw emerging market equities perform strongly following a weak September. All regions performed well, but Latin America and Eastern Europe more so than Asia. Although the macro-economic environment remains uncertain and equity markets are volatile, the valuation of the MSCI Emerging markets index is attractive versus its historic averages, trading on a price to book ratio of 1.5 and a historic price earnings ratio of 12.

The top three performers by contribution during the month were Samsung Electronics, Petrobras, and Gazprom. **Samsung Electronics** (Korean consumer electronics) is executing well in most of its divisions. In the telecom division its new smartphone offerings are selling well, and Samsung is now the global leader in terms of market share for smartphone handsets, a close second in overall global handset market share, whilst producing at industry leading operating margins. Samsung is the clear leader in semiconductors globally, both in commodity and specialty semiconductors, and generating a profit even at the trough of the cycle in stark contrast to its peers. **Petrobras** (Brazilian oil & gas) rose with the oil price, but also reacted positively to news it had increased domestic prices for diesel and petrol. Petrobras aims to maintain stability in domestic fuel prices whilst still reflecting the trend in international oil prices, which translates into periods of discount or premium to international spot prices, and allows analysts to endlessly debate the topic. **Gazprom** (Russian gas) performed well on hopes that its payout ratio may increase and potentially

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mark a trend of higher dividends for the company. This would be a more palatable method to return funds to the government, its largest shareholder, than increasing taxes on the gas industry. As we head into the winter season we may see a tight gas market in Europe with LNG supplies continuing to be diverted to Asian markets. Gazprom trades on a price earnings ratio of 4.

The laggard in the month by contribution was **Huabao International** (Chinese flavour & fragrances). We wrote about this holding last month following its strong performance. It trades on a price earnings ratio of 9.5, with net cash, and a dividend yield of 3.5%.

During the month we sold the remainder of our holding in **Sasol** (South African energy & petro-chemicals). The South African rand and oil prices play an important role in shaping the performance of the company. We had become concerned about cost increases in South Africa and to a lesser extent over the drive for geographic expansion by the company. There are many merits to the stock, such as its progressive dividend policy, and many concerns, such as its high carbon emissions; but in the end the valuation of Sasol became stretched versus our other energy holdings.

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