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Oldfield Partners

Emerging Markets Investment Report
October 2015 Newsletter

Performance Summary

USD terms	Emerging Markets Equity Composite	Index*
October	+6.8%	+7.1%
2015 to date	-10.0%	-9.4%
1 year	-14.6%	-14.5%
3 years annualised	-1.2%	-2.9%
5 years annualised	-2.3%	-2.8%
Since inception**	+527.2%	+263.6%
Since inception annualised**	+13.2%	+9.1%

*MSCI Emerging Markets (Net Dividends Reinvested). **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, MSCI © and Bloomberg.

Performance of Five Largest Holdings*

Stock	Portfolio Weighting* (%)	Monthly Performance (local terms)**	Monthly Performance (USD terms)**
Samsung Electronics	10.2	+20.9%	+25.6%
Embraer	8.6	+14.8%	+14.8%
SK Telecom	7.7	-3.4%	-3.4%
Yue Yuen Industrial	6.5	-1.1%	-1.0%
Thai Beverage	6.4	-1.5%	+0.1%

*As at end of period. **Total return inclusive of the portfolio activity. Source: Oldfield Partners and Bloomberg.

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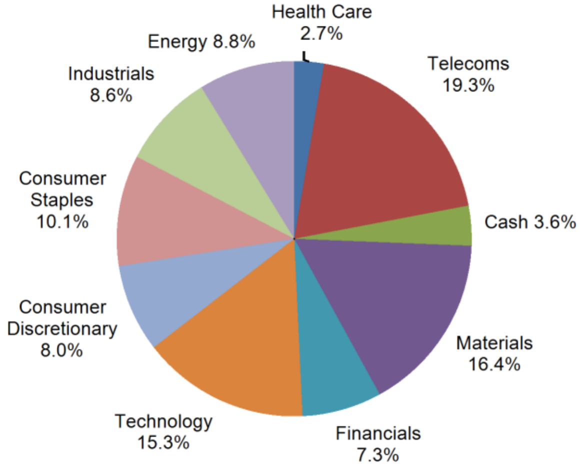
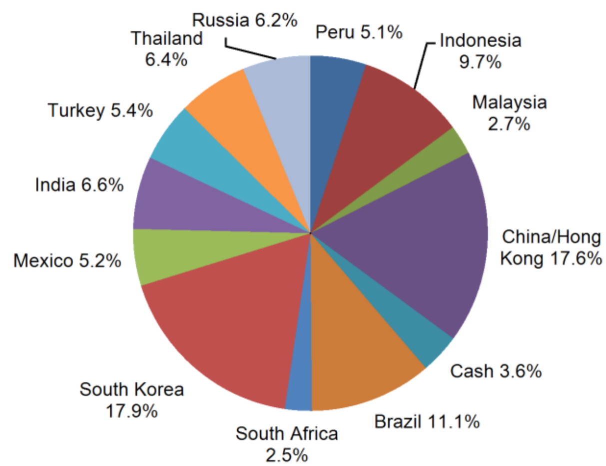
Sector and country breakdown as at 31st October 2015





Source: Oldfield Partners.

Commentary

October was a positive month for performance with Emerging Market equities bouncing back sharply after the summer sell off. The low valuation of the asset class is cause for optimism, although the twin macro-economic factors of the potential change in US monetary policy and the slowing growth rate of the Chinese economy still cast a cloud over sentiment. The upside potential from the weighted average of our price targets in the portfolio is 63%.

The poor performers during the month by contribution were Eros International and Infosys. **Eros** (Indian Bollywood film producer) had been a strong performer this year as investors placed a high valuation on its new digital media platform ErosNow following a rumoured bid for a stake in this business. This division, in its early growth stage contributes no profit, and we do not assign any value to it as yet. We had been selling down the position in Eros ahead of its investor day due to valuation (being driven by the internet style valuation of ErosNow). The company's investor day was a disappointment with no new news and no bid news on ErosNow, and some muddled answers to investor questions led to short selling. The key criticisms being whether the company is fabricating the ErosNow subscriber numbers and whether the sales growth in the United Arab Emirates (UAE) is correct; all of which the management have publicly refuted. The UAE is an attractive location for media-related clients and Eros is obliged to account for them as UAE even if they are ultimately from another part of the world. A key takeaway, and a point management must adhere to, is that the company will end 2016 free cash flow positive. With the sharp fall in the share price, to a level below the pre-ErosNow rally, and with confidence in the management's actions to date we have turned buyers again. **Infosys** (Indian IT services) has been a strong performer this year, and we have reduced the position substantially partly on valuation and partly on the uncertainty of increased automation in the IT services industry. It is unclear if automation is a threat or an opportunity for Indian

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IT services, as it will reduce pricing and substantially reduce headcount (and Infosys alone has 185,000 employees), but it is difficult to know if the company or the customer will take any benefit in a competitive industry.

The top performers during the month by contribution were Samsung Electronics, Lee & Man Paper, and Embraer. **Samsung Electronics** (Korean consumer electronics) announced a substantial shareholder return policy that was well ahead of investor expectations. Samsung will pay out 30-50% of its annual free cash flow to shareholders over the next three years in dividends and share buybacks, and announced a $10 billion share buyback with cancellation of the shares bought (about 6% of the total). This was everything and more that investors could have hoped for. **Lee & Man Paper** (Chinese containerboard manufacturer) is benefiting from the reduced supply in the containerboard industry as smaller players are shut down; and helpfully the company's key province has seen more supply reduction as the provincial government offered financial incentives to close operations. **Embraer** (Brazilian regional jet manufacturer) has continued to perform well in its core regional jet business and overall is a beneficiary of the weaker Brazilian currency. Its main competitor in regional jets, Bombardier in Canada, has run into financial troubles that will make gaining orders for its new and delayed generation of aircraft much tougher. The regional jet industry has been for some time near enough a duopoly, and smaller entrants have had trouble gaining any traction outside their niche markets.

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