Oldfield Partners LLP
Emerging Markets Investment Report
December 2010

Performance Summary as at 31st December 2010

US$ terms	Emerging Markets Equity Composite	MSCI Emerging Markets (NDR)
December*	+8.0%	+7.1%
2010*	+22.3%	+18.9%
Since Inception**	**+659.5%**	**+337.0%**
Since inception pa**	**+22.5%**	**+15.9%**

* Estimate used for December 2010.
** 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, MSCI © and Bloomberg.

Performance of Five Largest Holdings *

	Portfolio Weighting * %	Monthly Performance (local terms**)	Monthly Performance (US$ terms**)
Samsung Electronics	8.3	+14.9%	+17.8%
Petrobras	7.0	+17.6%	+17.6%
SK Telecom	6.5	+3.6%	+3.6%
Sasol	5.9	+9.8%	+18.2%
Gazprom	5.9	+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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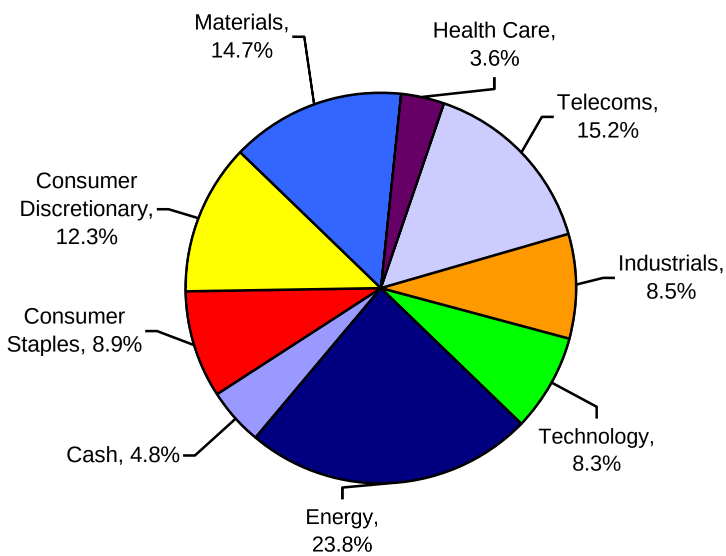
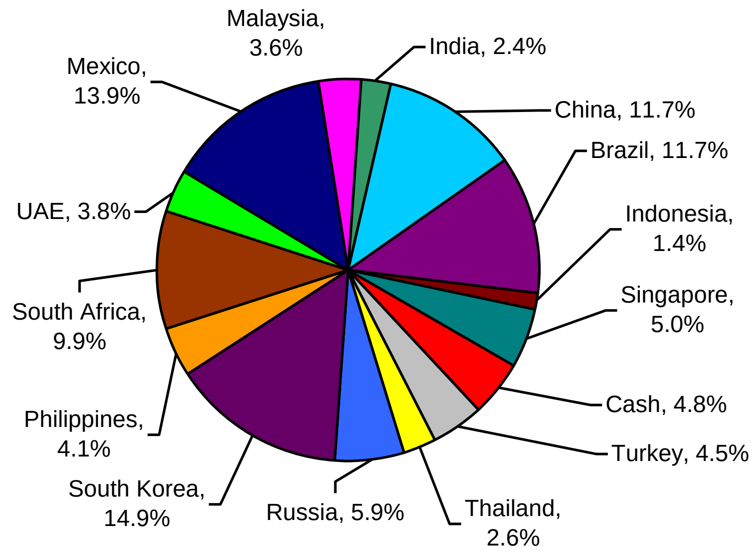
Sector and country breakdown as at 31st December 2010





Source: Oldfield Partners. Overstone Emerging Markets Fund.

Commentary

Global equity markets rallied strongly to the close of 2010, coinciding with the Federal Reserve initiating a second phase of monetary easing. The Chinese authorities have estimated that 40 cents in the dollar of quantitative easing in the US ends up in China. It is little wonder that inflation and currency controls are the topics of the moment in emerging markets. How the key emerging markets deal with inflation and liquidity inflows will be an important test for the asset class in 2011. To date inflation across the key emerging market countries is between 5% and 8% per annum, despite solid economic growth, and policy responses have been well measured.

We believe that valuations remain attractive in emerging markets trading at a forward price earnings ratio of 12 and a price to book ratio of 2. This is in line with average historic valuations for the asset class. The return on equity for emerging markets remains healthy at 15% and has been achieved without recourse to leverage; in fact the net debt to equity ratio in emerging markets remains historically low at 20%. There is ample scope for emerging market companies to increase returns to shareholders by increasing dividends or share buy backs. Arguably currencies in emerging markets remain relatively undervalued given the attractive economic fundamentals and may see the next phase of readjustment. Longer term

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we view the inflows into and expansion of emerging market equity as a healthy move to address its under-representation in the world; with emerging markets contributing 50% of global gross domestic product (on a purchasing power parity basis) against its approximate 14% weight in global equity indices.

The top three performers this month by contribution were Samsung Electronics, Ternium, and Petrobras. **Samsung Electronics** (Korean consumer electronics) continued its solid performance in the last two months of 2010 and we wrote about the merits of this company last month. The valuation remains attractive on a forward price earnings ratio of 8.5 and with net cash. **Ternium** (Mexican steel producer) announced terms had been reached with Venezuela for the payment of the final tranche of its compensation (US$250 million) following the nationalisation of Sidor in 2008. The valuation of Ternium remains attractive on a forward price earnings ratio of 11 and with net cash. **Petrobras** (Brazilian oil producer) responded to gains in the oil price, but also positive company specific news on a strong increase in production growth for November and December, and an upgrade to the estimated recoverable reserves in the Tupi area (the first of the discoveries in the prolific deepwater Santos basin).

The bottom three performers this month by contribution were Top Glove, Chaoda, and Eros. **Top Glove** (Malaysian rubber glove manufacturer) continues to be negatively impacted by the rise in the natural rubber price to an all time high. The rubber price has increased by 60% in 2010. Top Glove has a history of passing on raw material price increases with a short lag, although this may be complicated by the speed of the rubber price rise and inventory accumulation from the swine flu pandemic. **Chaoda** (Chinese agriculture) has continued to lag following its surprise equity issuance earlier in the year, despite the background of news flow on increasing vegetable prices in China. **Eros** (Indian Bollywood films) did not participate in the year-end rally, and there was little news flow on the stock. We remain attracted to the solid long term fundamentals and valuation of the stock trading on a price earnings ratio of 9.

The valuation of the portfolio remains attractive on a forward price earnings ratio of 12, a price to book ratio of 1.8, and with our expectations of 21% earnings growth for this year. We ended the year with 20 holdings.

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