

OLDFIELD PARTNERS

EMERGING MARKETS INVESTMENT REPORT

DECEMBER 2014

Performance Summary

USD terms	Emerging Markets Equity Composite	Index*
December	-3.4%	-4.6%
2014	-2.4%	-2.2%
1 year	-2.4%	-2.2%
3 years annualised	+6.9%	+4.0%
5 years annualised	+2.3%	+1.8%
Since inception**	+596.9%	+301.5%
Since inception annualised**	+14.9%	+10.4%

*MSCI Emerging Markets (Net Dividends Reinvested). **Estimate used for December 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, MSCI © and Bloomberg.

Performance of Five Largest Holdings*

Stock	Portfolio Weighting* (%)	Monthly Performance (local terms)**	Monthly Performance (USD terms)**
Samsung Electronics	8.2	+3.1%	+5.0%
SK Telecom	8.0	-4.7%	-4.7%
Embraer	7.8	+0.2%	+0.2%
Turkcell	7.0	-4.7%	-4.7%
Infosys	6.8	-9.9%	-9.9%

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

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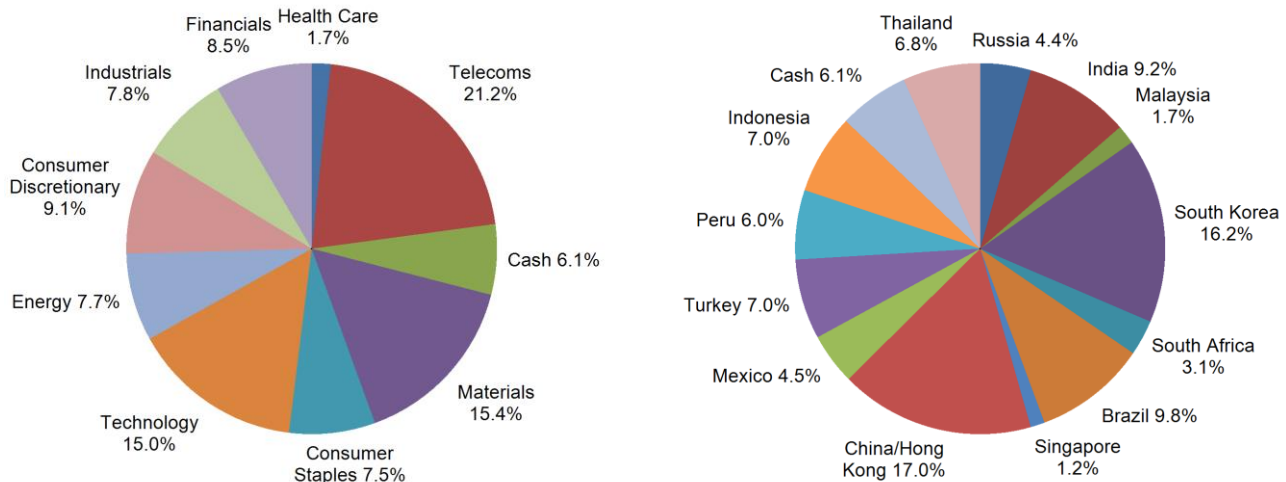
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Sector and country breakdown as at 31st December 2014



Source: Oldfield Partners.

Commentary

The MSCI Emerging Markets Index is on a price to book ratio of 1.5 and a price to earnings ratio of 12.5. The index looks to be towards the bottom end of a trading range that has been in place since 2011. Despite the negatives of a slowing Chinese economy, US monetary policy tightening, and a difficult geo-political backdrop, there are positives with a sharp fall in the oil price, positive reform agendas in some countries, and a growing US economy. Overall the outlook is perhaps even murkier than last year, but with the comfort that there are some undemanding valuations on offer.

Valuations remain polarised with the most defensive sectors, consumer staples and healthcare, on price to earnings ratios of over 25, and with the more cyclical sectors on multiples half of that, and energy on the lowest price to earnings of all at 6 times. The portfolio has a skew towards cyclical stocks, and overall towards those with good assets and/or solid balance sheets.

The worst performers during the month by contribution were **Lukoil** (Russian oil & gas), **Infosys** (Indian IT services), and **Petrobras** (Brazilian oil & gas). Our oil stocks have been impacted not only by the dramatic fall in the oil price, but also increased Russian risk for Lukoil with the fallout from Russian involvement in the Ukraine and the ongoing corruption scandal in Brazil for Petrobras. A bounce back in the oil price could be as sharp and unexpected as the fall was, as much depends on the supply-side decisions of the key OPEC countries. We have added to Lukoil after its share price fall as the falling rouble has a beneficial impact on its cost base, taxation becomes less onerous at lower oil prices, and management remain committed to dividend increases. Lukoil trades on a price to earnings ratio of 4. We have reduced Petrobras as its upstream oil assets are less attractive in a lower oil price environment and given the uncertainty over the outcome of the ongoing corruption scandal.

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With the government as its largest shareholder any comment by the administration affirming implied state financial guarantees (with no strings, which is possibly a big ask) would aid the share price.

The top performers during the month by contribution were **Samsung Electronics** (Korean consumer electronics) and **Thai Beverage** (leading alcoholic beverage producer in Thailand). Samsung Electronics continued its share price rally to the year-end as investors weighed prospects for increased shareholder returns at the end-January quarterly results and its lowly valuation of 5 times earnings (excluding cash).

The worst performers by contribution during the quarter were Petrobras, **Ternium** (Latin American steel producer), and Lukoil. These are all cyclical stocks. The best performers were **Yue Yuen** (Hong Kong shoe manufacturer) and **Turkcell** (Turkish mobile telecom operator).

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