

Classical Insights -- Emerging Markets

Global Investment Analysis Based on the Classical Economic Model

EM portfolio update – Adding more EM real estate & closed-end funds

Mike Churchill

October 12, 2009

Real-estate firms and closed-end funds trading at huge discounts to NAV are among the most attractive investments on the EM landscape now. EM real estate already has started rebounding in some places, helped by low interest rates, strengthening banks and improving economic conditions. Liquidity is an issue with these names, but before the crash the seven funds listed below had 5-10x their current trading volume in US\$ terms. In theory, liquidity should return to former levels as the global economy improves. Even now, you can periodically pick up \$1-5m blocks of these.

Seven attractive London-listed closed-end funds and real estate developers

Name	London ticker	Description	Curr.	Price	NAV	NAV date	Pre/Disc	daily vol. (\$ 000s)
Aseana Properties	ASPL	Vietnam & Malaysia property	US\$	0.40	0.91	6/30/09	-56%	\$40
Aurora Russia Ltd.	AURR	Russia private equity	GBP	39.50	106.00	3/31/09	-63%	\$262
Dolphin Capital Inv	DCI	Mediterranean prop (resorts)	GBP	41.25	232.00	3/31/09	-82%	\$753
Dragon-Ukrainian Props	DUPD	Ukraine comm'l & resid RE	GBP	57.00	153.00	6/30/09	-63%	\$76
Equest Balkan Props	EBP	Pan-Balkan RE	GBP	17.00	80.50	12/31/08	-79%	\$339
JSM Indochina	JSM	Vietnam & Cambodia resid RE	US\$	0.63	1.09	6/30/09	-43%	\$63
Tau Capital	TAU	Central Asia firms (50% Kaz)	US\$	0.35	0.57	7/31/09	-39%	\$105

Sources: Bloomberg, company websites

I will be doing a portfolio rebalancing to add more of the London funds, plus add Carpathian gold, which is trading at \$8/oz. in the ground and has both a Brazil project starting up next year and a huge Romanian deposit. I'll also be selling some of the Sri Lankan and Turkish names that have risen a lot, plus selling the Sri Lankan plantations, which I don't follow now. Other Sri Lankan small caps are still of interest, though.

Portfolio Rebalancing Trades (all data are in US\$)

	\$ Price	Shares	Total US\$		Notes
Buys					
Dragon-Ukrainian Props (DUPD)	0.90	11000	\$9,934		63% discount to NAV.
Carpathian Gold (CPN CN)	0.27	35000	\$9,571		Gold in Brazil, Romania. Trades at \$8/oz.
Dolphin Capital Inv (DCI LN)	0.65	13000	\$8,496		82% discount to NAV.
Aurora Russia Ltd. (AURR LN)	0.63	13000	\$8,136		63% discount to NAV.
JSM Indochina (JSM LN)	0.63	12000	\$7,500		43% discount to NAV.
		total buys	\$43,638		
Sells					
				% selling	
Hemas Holding (HEMS SL)	1.13	17500	\$19,741	100%	Up a lot. Don't cover closely.
TEB Bank (TEBnk TI)	1.40	8000	\$11,206	57%	Close to target price.
Ceylon Hotels (CHOT SL)	0.21	50000	\$10,650	100%	Not cheap on a \$/room basis, and hard to cover.
Unitech Corp. Parks (UCP LN)	0.36	23000	\$8,199	100%	Never liked it much. They have projects but little cash flow.
Turk Hava Yollari (THYAO TI)	2.68	3000	\$8,036	50%	Exceeded target price.
Namunukula Plantns (NAMU SL)	0.21	30500	\$6,376	100%	Don't cover closely. Other things more interesting.
Chemical Industries (CIC SL)	0.61	10000	\$6,119	100%	Up a lot. Don't cover closely.
Horona Plantations (HOPL SL)	0.19	23000	\$4,257	100%	Don't cover closely. Other things more interesting.
Kotagala Plant (KOTA SL)	0.26	15500	\$3,983	100%	Don't cover closely. Other things more interesting.
Malwatte Vly Plantns (MAL SL)	0.28	8500	\$2,388	100%	Don't cover closely. Other things more interesting.
		total sales	\$80,956		

new to the portfolio

I continue to be intrigued by Africa. Turkey and Brazil just aren't as cheap as they once were, and neither is Asia. Africa may be the next frontier in terms of super-cheap stocks with 200% upside. I am thinking taking another trip there (Nigeria, Zimbabwe, Kenya).

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Classical Insights EM Portfolio as of October 9, 2009

(all prices translated into US\$)

		sector	Date of orig purch.	Price initial	Current	shares	value	Chg. since first pur.	% of port.
Tecnisa SA	TCSA3 BS	Real estate	2/6/2009	1.43	6.15	13900	\$85,428	330%	7.9%
Turkiye Sinai Bank	TSKB TI	Banking	7/12/2007	1.09	1.11	40100	\$44,662	2%	4.1%
Regal Petroleum	RPT LN	Oil & Gas	7/2/2009	1.16	1.76	24000	\$42,208	52%	3.9%
Vestel Beyaz	VESBE TI	Consumer goods	7/12/2007	1.92	2.04	18500	\$37,670	6%	3.5%
Turk Traktor	TTRAK TI	Machinery	9/15/2005	5.19	5.47	6725	\$36,761	5%	3.4%
Koc Holding	KCHOL TI	Holding	2/14/2008	3.44	2.66	13751	\$36,644	-23%	3.4%
Minerva	BEEF3 BS	Food	4/23/2009	1.22	3.59	9000	\$32,309	194%	3.0%
Sare Holding	SAREB MM	Real estate	4/20/2009	0.17	0.40	80000	\$32,103	130%	3.0%
Tokyo Cement NV	TKYOX SL	Bldg prods.	5/22/2009	0.10	0.15	208000	\$30,801	50%	2.9%
Aseana Properties	ASPL LN	Closed end fund	9/21/2009	0.27	0.40	73512	\$29,221	45%	2.7%
Equest Balkan Property	EBP LN	Real estate	9/21/2009	0.30	0.27	108000	\$29,137	-10%	2.7%
Pinar Sut	PNSUT TI	Food	11/1/2008	1.90	4.37	6500	\$28,425	130%	2.6%
Agra	AGIN3 BS	Real estate	4/22/2009	0.78	2.83	10000	\$28,317	264%	2.6%
Banco Pine	PINE4 BS	Banking	7/3/2008	5.88	6.49	3850	\$24,989	10%	2.3%
Overseas Realty Ceylon	OSEA SL	Real estate	5/22/2009	0.10	0.14	173000	\$23,735	33%	2.2%
Jababeka	KIAA IJ	Real estate	4/16/2009	0.007	0.014	1700000	\$23,727	104%	2.2%
Kardemir Karabuk	KRDMD TI	Steel	5/8/2007	0.42	0.42	54802	\$23,216	0%	2.2%
Sampath Bank	SAMP SL	Banking	5/22/2009	0.87	1.57	14000	\$21,982	82%	2.0%
Tau Fund	TAU LN	Closed end fund	9/16/2009	0.26	0.35	62500	\$21,875	36%	2.0%
Sinpas REIC	SNGYO TI	Homebuilding	6/10/2009	2.25	3.89	5504	\$21,437	73%	2.0%
Comm'l Bank Ceylon	COMB SL	Banking	5/19/2009	0.88	1.57	13500	\$21,197	79%	2.0%
Otokar Otobus	OTKAR TI	Machinery	12/29/2006	11.06	9.50	2200	\$20,895	-14%	1.9%
Hemas Holding	HEMS SL	Diversified	5/19/2009	0.67	1.13	17500	\$19,741	68%	1.8%
TEB Bank	TEBNK TI	Banking	10/25/2008	0.47	1.40	14000	\$19,611	198%	1.8%
Dragon-Ukrainian Props	DUPD LN	Closed end fund	9/16/2009	0.75	0.90	21000	\$18,965	20%	1.8%
JSM Indochina	JSM LN	Closed end fund	9/16/2009	0.57	0.63	30000	\$18,750	11%	1.7%
Pinar Entegre	PETUN TI	Food	7/21/2009	2.02	2.51	7000	\$17,602	24%	1.6%
Aselsan Elektronik	ASELS TI	Defense	11/4/2008	2.33	4.37	4000	\$17,492	87%	1.6%
Turk Hava Yollari	THYAO TI	Airline	4/3/2009	0.88	2.68	6000	\$16,071	204%	1.5%
Camargo Correa Des	CCIM3 BS	Real estate	2/6/2009	1.09	3.20	5000	\$15,997	194%	1.5%
Aurora Russia Ltd.	AURR LN	Closed end fund	9/16/2009	0.74	0.63	25000	\$15,646	-15%	1.5%
Canplats	CPQ CN	Silver	2/19/2009	1.76	2.17	7000	\$15,179	23%	1.4%
Alternatifbank A.S.	ALNTF TI	Banking	2/14/2008	1.18	0.98	15000	\$14,759	-17%	1.4%
Sterling Resources	SLG CN	Oil & gas	7/2/2009	1.12	1.42	10000	\$14,201	26%	1.3%
China Hongxing Sports	CHHS SP	Retail	1/28/2009	0.13	0.15	90000	\$13,217	16%	1.2%
Klabin Segall	KSSA3 BS	Real estate	4/28/2009	1.05	2.83	4500	\$12,743	170%	1.2%
Petrolifera	PDP CN	E&P	4/13/2009	1.52	0.96	13000	\$12,474	-37%	1.2%
Chariot Resources	CHD CN	Mining -- copper	3/19/2009	0.14	0.27	45000	\$12,306	97%	1.1%
Even Construtora	EVEN3 BS	Real estate	4/28/2009	1.61	4.10	3000	\$12,303	155%	1.1%
Candente	DNT CN	Mining -- copper	3/19/2009	0.21	0.45	25000	\$11,274	112%	1.0%
Ceylon Hotels	CHOT SL	Real estate	7/24/2009	0.19	0.21	50000	\$10,650	11%	1.0%
Ceylon Investment	CINV SL	fund	7/24/2009	1.05	1.50	7000	\$10,486	43%	0.3%
Turcas Petrol	TRCAS TI	Retail	11/25/2008	1.61	3.44	3000	\$10,331	114%	1.0%
Royal Ceramic	RCL SL	Manufacturing	5/19/2009	0.31	0.47	20000	\$9,451	55%	0.9%
Dolphin Capital Inv	DCI LN	Closed end fund	9/16/2009	0.64	0.65	13000	\$8,496	2%	0.8%
Unitech Corp. Parks	UCP LN	Closed end fund	9/16/2009	0.38	0.36	23000	\$8,199	-5%	0.8%
Kordsa	KORDS TI	Manufacturing	8/27/2009	1.47	1.63	5000	\$8,165	11%	0.8%
CGX Energy	OYL CN	Oil & gas	2/20/2009	0.54	1.03	7000	\$7,187	91%	0.7%
Colombo Fort Land	CFLB SL	Real estate	7/24/2009	0.24	0.24	30000	\$7,186	0%	0.2%
Namunukula Plantations	NAMU SL	Agriculture	12/20/2007	0.29	0.21	30500	\$6,376	-27%	0.6%
Chemical Industries	CIC SL	Agriculture	5/19/2009	0.34	0.61	10000	\$6,119	79%	0.6%
Horona Plantations	HOPL SL	Agriculture	12/20/2007	0.24	0.19	23000	\$4,257	-22%	0.4%
Kotagala Plant.	KOTA SL	Agriculture	4/7/2008	0.65	0.26	15500	\$3,983	-60%	0.4%
Malwatte Vly Plantations	MAL SL	Agriculture	12/20/2007	0.40	0.28	8500	\$2,388	-30%	0.2%
ETFS Cotton	COTN LN	Agriculture	4/4/2008	2.56	1.64	200	\$327	-36%	0.0%
First Trust Global Inc.	FAM	Fund	10/30/2008	9.98	15.87	13	\$206	59%	0.0%
Cash									
UBS & Pershing Money Market			4/18/2005	1.00	1.00	-1943	-\$1,943	0%	-0.2%

The EM portfolio is up 12.9% since the last update six weeks ago, and up 167% year-to-date.

Classical Insights EM Portfolio Performance (as of 10/9/09)

Value at inception on 4/18/05	\$246,600
Current value	\$1,078,234
Gain since inception	337.2%
MSCI Emerging Market Free index return since 4/18/05	60.6%
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Year-to-date performance	167.6%
MSCI Emerging Market Free Index year-to-date performance	68.6%

* Actual starting value was \$150,000. Capital increased 50% on 4/17/06 and a further 9.6% on May 1, 2007.

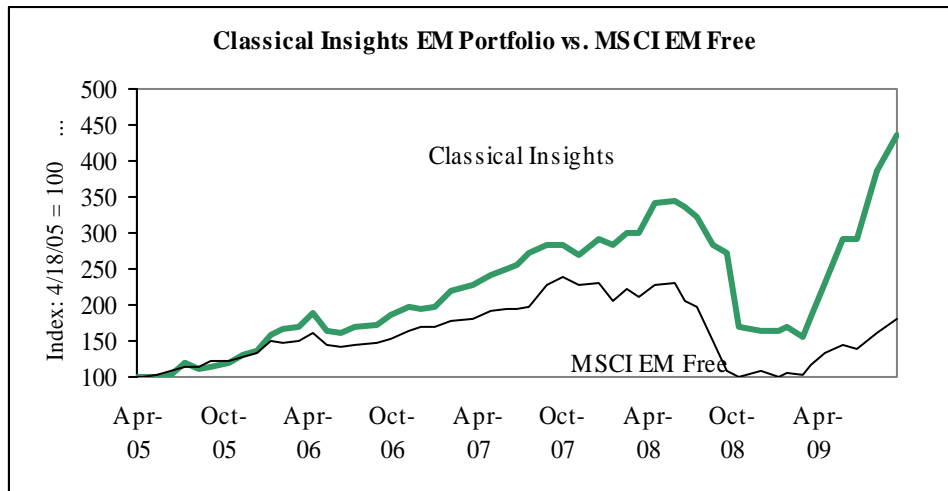
Target prices and implied upside (October 9, 2009)

	Currency	Target	Price	Upside	Last reviewed	
Carpathian Gold (CPN CN)	USD	1.24	0.27	354%	Oct-09	
Dolphin Capital Inv (DCI LN)	USD	2.50	0.66	279%	Oct-09	
Equest Balkan Prop (EBP LN)	USD	0.96	0.27	252%	Oct-08	
Electromagnetica (ELMA RO)	RON	1.37	0.46	197%	Jul-09	
Regal Petroleum (RPT LN)	USD	5.15	1.76	193%	Jul-09	
Orko Silver (OK CN)	CAD	2.2	0.90	144%	Feb-09	need to review
Canplats (CPQ CN)	CAN	5.40	2.26	139%	Jan-09	
Cia. Sanea. Parana (SAPR4 BS)	BRL	4.70	2.32	103%	Jul-07	need to review (down?)
Dragon-Ukrainian Props (DUPD LN)	USD	1.82	0.90	101%	Oct-09	
Aurora Russia Ltd. (AURR LN)	USD	1.26	0.63	99%	Oct-09	
CGX Energy (OYL CN)	CAD	2.01	1.03	96%	Feb-09	
Sinpas REIC (SNGYO TI)	TRL	10.92	5.70	92%	Aug-09	
Pinar Entegre (PETUN TI)	TRL	6.83	3.68	86%	Aug-09	
Minerva (BEEF3 BS)	BRL	11.49	6.25	84%	Apr-09	need to review
Turk Traktor (TTRAK TI)	TRL	14.58	8.00	82%	Jul-09	
AIK Banka (AIKB SG)	RSD	5316	3017	76%	Jul-09	
Oando PLC (OANDO NL)	NGN	162.00	92.00	76%	Oct-09	
Sare Holding (SAREB MM)	MXN	9.23	5.34	73%	Aug-09	
Aseana Properties (ASPL LN)	USD	0.68	0.40	72%	Oct-09	
Camargo Correa (CCIM3 BS)	BRL	9.36	5.57	68%	Aug-09	
Vestel Beyaz (VESBE TI)	TRL	4.93	2.98	65%	Aug-09	
Koc Holding As (KCHOL TI)	TRL	6.43	3.90	65%	Jul-08	need to review
Pinar Sut (PNSUT TI)	TRL	10.18	6.40	59%	Aug-09	
Kordsa (KORDS TI)	TRY	3.77	2.39	58%	Aug-09	
Pan African Resources (PAF LN)	USD	0.20	0.13	53%	Oct-09	
Tecnisa SA (TCSA3 BS)	BRL	15.9	10.70	49%	Aug-09	
Turkiye Sinai Bank (TSKB TI)	TRL	2.34	1.63	44%	Aug-09	
BRD Bank (BRD RO)	RON	17.23	12.30	40%	Jul-09	
Petrom (SNP RO)	RON	0.36	0.26	39%	Jul-09	
Turcas Petrol (TRCAS TI)	TRL	6.73	5.04	34%	Aug-09	
Aselsan Elektronik (ASELS TI)	TRL	8.5	6.40	33%	Aug-09	
JSM Indochina (JSM LN)	USD	0.82	0.63	31%	Oct-09	
Even Construtora (EVEN3 BS)	BRL	8.83	7.14	24%	Aug-09	
Tau Capital (TAU LN)	USD	0.43	0.35	22%	Oct-09	
Alternatifbank (ALNTF TI)	TRY	1.73	1.44	20%	Nov-08	
TEB Bank (TEBNK TI)	TRL	2.44	2.05	19%	Aug-09	
Agra Empreendimento (AGIN3 BS)	BRL	5.74	4.93	16%	Aug-09	
Klabin Segall (KSSA3 BS)	BRL	5.42	4.93	10%	Aug-09	
Cia. Saneamento MG (CSMG3 BS)	BRL	30.34	31.50	-4%	Nov-08	need to review (up)
Turk Hava Yollari (THYAO TI)	TRL	3.76	3.92	-4%	Aug-09	need to review (up)
Cia. SABESP (SBSP3)	BRL	37.08	40.60	-9%	Oct-08	need to review (up)

Forward P/E and P/FCF Estimates (October 9, 2009)

	Crncy	Price	EPS (e)				P/E *	FCF (e)			P/FCF
			2008	2009e	2010e	2011e	2010e	2009e	2010e	2011e	2009e
Turk Traktor (TTRAK TI)	TRL	8.00	1.25	0.58	1.92	2.08	4.2	0.60	1.94	2.10	13.3
Sinpas REIC (SNGYO TI)	TRL	5.70	0.08	0.48	1.37	1.93	4.2				
Cia. Sanea. Parana (SAPR4 BS)	BRL	2.32	0.46	0.50			4.6	-0.52			
China Hongxing Sports (CHHS SP)	SGD	0.21	0.04	0.04	0.04		5.0	0.02	0.02		10.6
Pinar Entegre (PETUN TI)	TRL	3.68	0.76	0.70	0.71	0.76	5.2	0.65	0.66	0.72	5.7
Sare Holding (SAREB MM)	MXN	5.34	1.16	0.92	1.00	1.15	5.3	0.95	1.02	1.16	5.6
Camargo Correa (CCIM3 BS)	BRL	5.57	0.46	0.49	1.03	1.17	5.4	0.42	0.94	1.08	13.3
Vestel Beyaz (VESBE TI)	TRL	2.98	0.16	0.46	0.55	0.58	5.4	0.58	0.58	0.59	5.1
Turkiye Sinai Bank (TSKB TI)	TRL	1.63	0.23	0.29	0.30	0.33	5.4				
BRD Bank (BRD RO)	RON	12.30	1.22	1.91	2.15		5.7				
AIK Banka (AIKB SG)	RSD	3017	748	667	503	863	6.0				
Pinar Sut (PNSUT TI)	TRL	6.40	0.76	1.35	1.04	1.13	6.2	1.40	1.07	1.13	4.6
Kordsa (KORDS TI)	TRY	2.39	0.32	0.18	0.38	0.47	6.3	0.20	0.40	0.49	12.0
Petrom (SNP RO)	RON	0.26	0.02	0.03	0.04		6.5				
Klabın Segall (KSSA3 BS)	BRL	4.93	0.04	0.71	0.75	0.64	6.6	0.71	0.75	0.64	6.9
Turcas Petrol (TRCAS TI)	TRL	5.04	0.59	0.56	0.75		6.7				
Electromagnetica (ELMA RO)	RON	0.46	0.06	0.06	0.07		6.7				
Aselsan Elektronik (ASELS TI)	TRL	6.40	0.83	0.94	0.94	1.06	6.8	0.85	0.85	0.96	7.5
Pan African Resources (PAF LN)	USD	0.13			0.018	0.017	7.1		0.01	0.01	
Tecnisa SA (TCSA3 BS)	BRL	10.70	0.52	0.84	1.51	1.99	7.1	0.80	1.44	1.93	13.4
Turk Hava Yollari (THYAO TI)	TRL	3.92		0.21	0.50		7.8				
Cia. Saneamento MG (CSMG3 BS)	BRL	31.50	3.24	3.51	3.79		8.3	-1.29	-0.91		nmf
Cia. SABESP (SBSP3)	BRL	40.60	3.93	4.63			8.8	2.47			16.4
Even Construtora (EVEN3 BS)	BRL	7.14	0.33	0.72	0.78	0.93	9.2	0.60	0.63	0.77	12.0
TEB Bank (TEBNK TI)	TRL	2.05	0.17	0.16	0.22	0.24	9.3				
Agra Empreendimento (AGIN3 BS)	BRL	4.93	0.06	0.17	0.49	0.60	10.0	0.17	0.49	0.60	29.5
Regal Petroleum (RPT LN)	USD	1.76	-0.26	-0.01	0.06	0.21	30.0	-0.41	-0.35	-0.10	nmf

* P/Es are based on 2009 earnings estimates where no 2010 estimates are present.



Here is the frontier markets portfolio. It still consists exclusively of Romanian stocks (held at Eurobank EFG in Bucharest).

Classical Insights Frontier Markets portfolio as of October 9, 2009

(all prices translated into US\$)

		Sector	Date of orig purch.	Price initial	Current	shares	value	Chg. since first pur.	% of port.
SIF 4 Muntenia	SIF4 RO	Fund	7/23/2009	0.22	0.25	90000	\$22,762	15%	36.8%
BRD	BRD RO	Banking	7/23/2009	2.98	4.23	3000	\$12,697	42%	20.5%
Banca Transilvania	TLV RO	Banking	7/28/2009	0.48	0.55	20000	\$11,080	15%	17.9%
Electromagnetica	ELMA RO	Real estate	7/23/2009	0.12	0.16	70000	\$11,080	33%	17.9%
Cash				1.00	1.00		\$4,194	0%	6.8%

The portfolio has gained 5.4% since the last update on August 28, and is up 17.8% since inception on July 20, 2009.

Classical Insights Frontier Portfolio Performance (as of 10/9/09)

Value at inception on 7/20/09	\$52,475
Current value	\$61,812
Gain since inception	17.8%

Important Notes About the Portfolio & Trading Policies

The Classical Insights Emerging Market portfolio is Mike Churchill's actual brokerage account. While there are drawbacks with this approach, using a real portfolio should eliminate the performance-tracking problems associated with hypothetical portfolios. We try to inform clients of all trades in new positions prior to those being made. Subsequent trades are sometimes done without notice. Performance measurement will automatically include transaction costs, fees and "slippage." The account is held partly at UBS and partly at Auerbach Grayson. Commissions for UBS are paid in the form of a flat annual fee of 1.0% of total assets. That fee is reflected over the course of the year in the performance of the overall portfolio. Auerbach Grayson commissions are based on a flat fee per trade. Churchill Research Inc. is the investment advisor to Classical Insights Fund L.P.

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