Oldfield Partners LLP
Newsletter Q1 2006

This quarterly newsletter is the more long-winded companion to our quarterly and monthly reports on clients' portfolios and the pooled funds which we manage.

Within Overstone Fund plc we manage three pooled funds:

	Start date	Assets
Overstone Global Equity Fund,	June, 2005	$250m
Overstone European Equity Fund	October, 2005	$5m
Overstone Opportunity Multi Fund	November, 2005	$25m

In addition we advise two pooled funds, with assets of $55 million, for US taxable investors, and we manage a number of separate portfolios.

We produce monthly newsletters for each of these pooled funds so if you do not currently receive a newsletter for any of these funds but want to in the future, please email info@oldfieldpartners.com.

Our approach in the management of global equity portfolios is long-only, no leverage, value-focused, large-cap, index-ignorant, highly concentrated, and anti-short-term. The European fund has much the same features except that it digs deeper in terms of company size. Overstone Opportunity Multi Fund ("OOMF") is a fund of funds, aiming at return without much concern with volatility, and focused eclectically on a few (6-18) funds with managers who have a philosophy similar to our own (value-focused, index-ignorant, highly concentrated), but who are operating in areas some of which are much too specialized for us to be investing in directly – for example, Taiwan, the water industry, gold shares.

Oldfield Partners has a total of $1.4 billion under management for families, charities, and endowment funds, either through separate portfolios or through pooled funds. The executive partners are Claus Anthon, Jamie Carter, Richard Oldfield, and Nigel Waller.

Oldfield Partners LLP,
144 Buckingham Palace Road, London, SW1W 9TR.
Telephone: +44 (0)20 7259 1000 Email: info@oldfieldpartners.com
www.oldfieldpartners.com

Oldfield Partners LLP
Newsletter Q1 2006

Performance Summary as at 31 March 2006

Global Equity

US$ terms	Global Equity Composite 1	MSCI World (NDR)
Q1 2006	+8.2%	+6.6%
Since 11/03/05	+17.4%	+15.2%
Since inception *	+245.8%	+85.4%
Since inception per annum *	+14.4%	+6.9%

1 The performance shown is of a composite of all US dollar denominated global equity portfolios managed by Richard Oldfield at Alta Advisers from 1997 to 11th March 2005 and at Oldfield Partners since 14th March 2005. Before 2000 the performance of two portfolios is excluded from the composite because their returns were inflated by the inclusion, in those portfolios only, of an unquoted investment which, following its flotation, had a large favourable impact on returns. All returns are gross of fees to 11 March 2005, then net of fees thereafter.

* Inception 01 Jan 1997. Source of data: Alta Advisers Ltd. and Oldfield Partners LLP

European Equity

Euro terms	Overstone European Equity Fund 2	MSCI Europe (NDR)
Q1 2006	+8.9%	+8.0%
Since inception *	+11.2%	+11.9%

2 The performance shown is that of the 'A' shares in the Overstone European Equity Fund.
* Inception 01 October 2005. Source of data: Oldfield Partners LLP

Fund of Funds

US$ terms	Overstone Opportunity Multi Fund 3	MSCI World (NDR)
Q1 2006	+6.4%	+6.6%
Since inception *	+19.8%	+12.6%

3 The performance shown is an **estimate** of the performance of the Overstone Opportunity Multi Fund, using provisional prices of the underlying funds.
* Inception 1 November 2005. Source of data: Oldfield Partners LLP

Oldfield Partners LLP,
144 Buckingham Palace Road, London, SW1W 9TR.
Telephone: +44 (0)20 7259 1000 Email: info@oldfieldpartners.com
www.oldfieldpartners.com

Oldfield Partners LLP
Newsletter Q1 2006

Commentary

There is a lot of froth about. Emerging market managers talk about a wall of money – more flowing in their direction in the first two months of 2006 than in the whole of 2005. The price-book value ratio of emerging markets in aggregate is now higher than that of developed international markets (omitting the US). The last times this happened were in 1994 and 1990, before in each case quite a tumble in emerging markets and also in developed.

Managers of funds devoted to Brazil, Russia, India and China (so called BRICs funds) have been trying to deflect some of the interest, so overwhelming has it been, on to more general emerging market funds. The price earnings ratio of the Russian market is 18. This does not seem quite right. Nor does the fact that the average yield of emerging market bonds is only 2% higher than US treasuries.

The froth is not only in emerging markets. The price earnings multiple of a medium sized engineering company in the UK now averages around 18, more expensive than the market as whole, whereas 3 or 4 years ago such companies had price earnings multiples of less than 10 and were notably cheaper than the largest UK companies. In the bond markets, the real yield on index-linked bonds in the UK has been driven down to improbably unattractive levels.

On the other hand, the price earnings ratio of the developed equity markets does not look overstretched – in fact, still close to its lowest level over the last fifteen years, since in recent times earnings have gone up faster than share prices. In any case, not all the pockets of froth are necessarily associated with one another. For example, the overvaluation of index linked bonds in part comes from the movement by UK pension funds away from equities and into such bonds. If index-linked bond prices went up because institutions did not want equities, it cannot follow that equity prices will go down if index-linked bond prices go down.

All the same it is important to view warily the many pockets of froth. Froth can get frothier, but we think that this is not a time for heroics. It is a time to be more on the highways of the investment world than on the byways.

One of the main themes in our portfolio is what is called “quality growth”. Many first class companies have done nothing in share price terms over the last three years during which time share indices as a whole are up by more than 50%. We hold in the global portfolios IBM, Kao, Merck, Microsoft, Nokia, Pfizer, Takeda Pharmaceutical, Vodafone and Wal-Mart, all of which can be regarded as quality growth, having certain characteristics in common: high return on equity, a strong balance sheet, historically high growth, some question mark about growth in the future, and (consequently) moderate valuation. The last few years have seen strength particularly in medium sized and small companies’ share prices, and we feel that the virtues of each of these large companies have been underrated.

Oldfield Partners LLP,
144 Buckingham Palace Road, London, SW1W 9TR.
Telephone: +44 (0)20 7259 1000 Email: info@oldfieldpartners.com
www.oldfieldpartners.com

The other major theme in our portfolios remains Japan. For several years valuations have been low. Meanwhile, companies have been taking action to address their costs and to provide a return for shareholders. In the middle of last year we began to see signs of an end to deflation, which provides the possibility that, after a decade of awfulness, a decade of economic and stock market prosperity is in prospect.

From these themes and from the attractions of specific companies, we see many opportunities, but then we always do. It is probably a good moment for us, having spoken of froth, to re-state our investment philosophy. We believe that equity investment is likely over time to provide an incomparably better return than other asset classes, but bumping around a good deal. The higher long term return comes in exchange for occasional hard knocks If anyone were any good at predicting exactly when the hard knocks would occur, that would be marvellous, but on the whole making very sharp asset allocation shifts into and out of equities does not work because the odds are against: the investor has to get out at the right time and get back in at the right time, with only a 1 in 4 chance of success.

Our attitude is therefore to remain more or less fully invested. The justification for this is not Panglossian optimism but realism about our ability to time properly the holding of a large chunk of cash – and it has to be large to have any significant defensive effect. Our further justification is that we find that there are always opportunities somewhere. The excesses of enthusiasm and gloom in markets and in different bits of markets ensure that something is always cheap, something is always expensive. Every share in the portfolio is one in which we expect to make money in absolute terms; but we have to acknowledge realistically that in practice if equity markets are rotten for a period, our returns may also be rotten for that period.

We are not in fact expecting a hard knock in the near future but the froth does suggest that the chances of one have increased – we find the overall valuation level of markets comforting, and do not think fundamental developments will derail them. But we are sceptical about such macro-predictions, including our own. At least once a year we recite the response given to Kenneth Arrow, Nobel Laureate, who, employed as a meteorologist in the US Air Force during the Second World War, quickly realised that his forecasts were no better than random and asked to be relieved of his responsibility for producing them: "The Commanding General is aware that your forecasts are no good. However, they are essential for planning purposes."

Oldfield Partners LLP,
144 Buckingham Palace Road, London, SW1W 9TR.
Telephone: +44 (0)20 7259 1000 Email: info@oldfieldpartners.com
www.oldfieldpartners.com