Oldfield Partners LLP
Newsletter Q1 2008

Oldfield Partners has a total of $2.2 billion under management from families, individuals, charities, trusts, endowment funds and pension funds, either through separate portfolios or through pooled funds. The executive partners are Claus Anthon, Jamie Carter, Richard Oldfield, Nigel Waller and Robert White.

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

We manage global equity portfolios, a European equity fund, an all cap global equity fund, a Japanese equity fund, and a fund of funds. Overstone Fund plc includes the following:

	Start date	Assets
Overstone Global Equity Fund	June, 2005	$768m
Overstone European Equity Fund	October, 2005	$35m
Overstone Opportunity Multi Fund	November, 2005	$41m
Overstone Japanese Equity Fund	October, 2007	$4m
Overstone All Cap Equity Fund	October, 2007	$2m

We also advise two pooled funds, with assets of $118 million, for US taxable investors, and we manage a number of separate portfolios.

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

Our approach in the management of global equity portfolios, managed by Richard Oldfield, is long-only, no leverage, value-focused, large-cap, index-ignorant, highly concentrated, and anti-short-term. The portfolio has never had more than 22 holdings and currently has 21. There is little *ex ante* decision-making about the attractions of particular countries. With rare exceptions the country weightings are the result of stock selection. The largest holdings include Barrick Gold, Microsoft and Hitachi.

The European fund, managed by Claus Anthon, has much the same features and philosophy, except that it digs deeper in terms of company size, and generally has a bias towards under-researched markets such as those in Scandinavia. Current holdings include Kone, Storebrand, Sandvik and Siemens. The fund has 23 holdings.

Overstone All Cap Equity Fund, managed by Nigel Waller, focuses on interesting and undervalued small and mid-sized companies. The approach is, as with the other funds at Oldfield Partners, concentrated and index-ignorant, with the usual emphasis on cash flow and value. Holdings include Credit Saison, KAS Bank and M&C Saatchi. The fund has 22 holdings.

Overstone Japanese Equity Fund, managed by Robert White, invests exclusively in Japanese equities. The fund is index-ignorant in its sector allocation and seeks to outperform the TOPIX benchmark combining partially a thematic approach and

Oldfield Partners LLP has approved and issued this communication for private circulation only; it must not be distributed to private customers. Information contained in this communication must not be construed as giving investment advice within or outside the United Kingdom. This is not an invitation to subscribe for any of the funds mentioned herein. Any reference to stocks is only for illustrative purposes and opinions expressed herein may be changed without notice at any time. The value of all investments and the income from them can go down as well as up; this may be due, in part, to exchange rate fluctuations. Past performance is not necessarily a guide to future performance. Oldfield Partners LLP does not warrant the accuracy, adequacy or completeness of the information and data contained herein and expressly disclaims liability for errors or omissions in this information and data. No warranty of any kind, implied, expressed or statutory, is given in conjunction with the information and data. © 2007 Partnership No. OC309959. GIPS® is a registered trademark of the CFA institute.

partially the identification of significantly undervalued assets. There are currently 23 holdings, the maximum targeted level, predominantly in medium and large stocks with a capitalization above US$1 billion. These include Daiwa Securities, Ryohin Keikaku and ORIX.

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.

Performance Summary as at 31st March 2008

Global Equity

US$ terms	Global Equity Composite 1	MSCI World (NDR)
Q1 2008	-5.1%	-9.1%
2007	+6.8%	+9.0%
2006	+22.0%	+20.1%
Since inception *	+120.6%	+15.2%
Since inception per annum *	+10.1%	+1.73%

1 The performance shown is of a composite of global equity portfolios. Performance is calculated on a total return basis, net of all fees and expenses. A full GIPS® compliant presentation of the global equity composite performance is available from Oldfield Partners.
* Inception 1 Jan 2000. Source of data: Alta Advisers Ltd, Pictet, Oldfield Partners LLP, MSCI © and Bloomberg.

US$ terms	Overstone Global Equity Fund 2	MSCI World (NDR)
Q1 2008	-4.5%	-9.1%
2007	+8.0%	+9.0%
2006	+21.4%	+20.1%
Since inception *	+40.2%	+32.4%

2 The performance shown is that of the 'A' shares in the Overstone Global Equity Fund and is calculated on a total return basis, net of all fees and expenses.
* Inception 1 June 2005. Source of data: Oldfield Partners LLP, MSCI ©, Bloomberg and Northern Trust Intl Fund Administration Services (Ireland).

Oldfield Partners LLP has approved and issued this communication for private circulation only; it must not be distributed to private customers. Information contained in this communication must not be construed as giving investment advice within or outside the United Kingdom. This is not an invitation to subscribe for any of the funds mentioned herein. Any reference to stocks is only for illustrative purposes and opinions expressed herein may be changed without notice at any time. The value of all investments and the income from them can go down as well as up; this may be due, in part, to exchange rate fluctuations. Past performance is not necessarily a guide to future performance. Oldfield Partners LLP does not warrant the accuracy, adequacy or completeness of the information and data contained herein and expressly disclaims liability for errors or omissions in this information and data. No warranty of any kind, implied, expressed or statutory, is given in conjunction with the information and data. © 2007 Partnership No. OC309959. GIPS® is a registered trademark of the CFA institute.

European Equity

Euro terms	Overstone European Equity Fund 3	MSCI Europe (NDR)
Q1 2008	-13.6%	-15.7%
2007	+10.9%	+3.0%
2006	+22.7%	+20.0%
Since inception *	+20.0%	+7.9%

3 The performance shown is that of the 'A' shares in the Overstone European Equity Fund and is calculated on a total return basis, net of all fees and expenses.
* Inception 3 October 2005. Source of data: Oldfield Partners LLP, MSCI ©, Bloomberg and Northern Trust Intl Fund Administration Services (Ireland).

All Cap Equity

US$ terms	All Cap Equity Composite 4	MSCI Small & Mid-Cap (NDR)	MSCI World (NDR)
Q1 2008	-3.1%	-8.3%	-9.1%
2007	+0.7%	+4.3%	+9.0%
2006	+39.2%	+20.4%	+20.1%
Since Inception *	+42.5%	+32.3%	+31.8%

4 The performance shown is of a composite of all cap global equity portfolios. Performance is calculated on a total return basis, net of all fees and expenses. A full GIPS® compliant presentation of the all cap equity composite performance is available from Oldfield Partners
* Inception 1st April 2005. Source of data: Oldfield Partners LLP, MSCI ©, Bloomberg and Rawlinson & Hunter (Jersey) and Northern Trust Intl Fund Administration Services (Ireland).

Japanese Equity

US$ terms	Overstone Japanese Equity Fund 5	Topix
Q1 2008	-11.0%	-7.2%
Since Inception *	-15.3%	-13.7%

5 The performance shown is that of the 'A' shares in the Overstone Japanese Equity Fund and is calculated on a total return basis, net of all fees and expenses.
* Inception 1st October 2007. Source of data: Oldfield Partners LLP, MSCI ©, Bloomberg and Northern Trust Intl Fund Administration Services (Ireland).

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

Oldfield Partners LLP is authorised and regulated by the Financial Services Authority
Oldfield Partners LLP has approved and issued this communication for private circulation only; it must not be distributed to private customers. Information contained in this communication must not be construed as giving investment advice within or outside the United Kingdom. This is not an invitation to subscribe for any of the funds mentioned herein. Any reference to stocks is only for illustrative purposes and opinions expressed herein may be changed without notice at any time. The value of all investments and the income from them can go down as well as up; this may be due, in part, to exchange rate fluctuations. Past performance is not necessarily a guide to future performance. Oldfield Partners LLP does not warrant the accuracy, adequacy or completeness of the information and data contained herein and expressly disclaims liability for errors or omissions in this information and data. No warranty of any kind, implied, expressed or statutory, is given in conjunction with the information and data. © 2007 Partnership No. OC309959. GIPS® is a registered trademark of the CFA institute.

Fund of Funds

US$ terms	Overstone Opportunity Multi Fund 6	MSCI World (NDR)
Q1 2008	-7.0%	-9.1%
2007	+12.1%	+9.0%
2006	+19.2%	+20.1%
Since inception *	+39.8%	+25.8%

6 The performance shown is an **estimate** of the performance of the Overstone Opportunity Multi Fund, using provisional prices of the underlying funds as at 31 March 2008. Performance is calculated on a total return basis, net of all fees and expenses.
* Inception 1 November 2005. Source of data: Oldfield Partners LLP, MSCI ©, Bloomberg and Northern Trust Intl Fund Administration Services (Ireland).

Commentary

"Are we a man or a mouse?", we ask ourselves regularly. Will we let, as Macbeth did, "I dare not wait upon I would, like the poor cat i' the adage" (it wanted the fish but did not want to get its feet wet). The answer is that we are, like the cat i' the adage, a mouse. And just as well, on the whole. Many of the bargains we thought we were seeing over the last few months have become even greater bargains. We are still inclined, as we wrote during the market lows in mid January, to be at least half brave.

During March a mood of deep gloom permeated, and then partly lifted. One of the surveys of investor sentiment which we have followed for many years reached an extreme of pessimism. The idea that the moment to buy is the moment at which there is the greatest pessimism is simple and, to those concerned about the fundamentals, simplistic, but it is founded on commonsense principles of human behaviour.

When all are bearish all will tend to be underinvested. We have seen several signs of this in March. Funds which, fortuitously, happen to have cash defer investing, making a special case for a departure from their normal policy of gradual investment. Where wealth managers have long term strategic targets for equity exposure in conservative and less conservative portfolios, some clients change their mind and say that they would like to be treated as conservative rather than as less conservative. Next, the target weighting for equities is adjusted to be below the long term strategic weighting. Next, the actual weighting falls, because equities fall more than other assets. And finally, many of the equity funds in which wealth managers invest tend themselves to accumulate cash.

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

Oldfield Partners LLP is authorised and regulated by the Financial Services Authority
Oldfield Partners LLP has approved and issued this communication for private circulation only; it must not be distributed to private customers. Information contained in this communication must not be construed as giving investment advice within or outside the United Kingdom. This is not an invitation to subscribe for any of the funds mentioned herein. Any reference to stocks is only for illustrative purposes and opinions expressed herein may be changed without notice at any time. The value of all investments and the income from them can go down as well as up; this may be due, in part, to exchange rate fluctuations. Past performance is not necessarily a guide to future performance. Oldfield Partners LLP does not warrant the accuracy, adequacy or completeness of the information and data contained herein and expressly disclaims liability for errors or omissions in this information and data. No warranty of any kind, implied, expressed or statutory, is given in conjunction with the information and data. © 2007 Partnership No. OC309959. GIPS® is a registered trademark of the CFA institute.

The result is that there is a quadruple bias against equities. A single bias, a double bias, even a triple bias might be justified, but a quadruple bias could be a bias too far and leaves markets surprisingly vulnerable to news which, though not good, may be not quite as bad as expected. It is not enough, therefore, to be gloomy about the economic fundamentals. Investors also have to watch out that their view, however gloomy, is not already simply the consensus, in which case it should be discounted in markets.

The information that we have – that there is a housing bubble still deflating, huge losses, some taken and some yet to be taken, on bank balance sheets and those of other financial companies, too much debt owed by consumers and too much consumer spending fuelled by debt, evidence of recession but also of some inflationary threats – all this information, troubling though it is, is not information which we alone have while the market does not.

On the contrary, the sheer incalculability of the financial problems produces an opportunity because investors do not like incalculability and they stay away. This produces an inefficiency in the market. Out of market inefficiency comes opportunity. No-one ever knows everything about a possible investment. Investment managers, and owners of money, have continually to make decisions based on judgement and the information they have, the latter always incomplete, however thorough their research and analysis. The question is just the degree of ignorance. In the current financial crisis the degree of ignorance is unusually high. This does not mean that there should be no investment, but it does mean that we have to exercise some self-restraint.

We have a bias in favour of equities in that we are always more or less fully invested. This is not the result of unwavering optimism, but our belief in equities for the long-term is fundamental, and we are sceptical of the likely success of frequent large-scale asset allocation moves backwards and forwards. Coupled with this is a belief in a restrained approach. Investment managers should have convictions, but they should not be too convinced that their convictions will always be right. We dislike leverage (none, ever, in portfolios; and lower than average levels in the companies in which we invest); and we try to diversify across countries, sectors, and ideas. We therefore avoid, now, going a bundle on what appear to be bargains in the financial sector especially in the face of the big uncertainties. That is why we advocated in January being half-brave rather than wholly brave. In practice we have been inert, or at least so inactive as to be imperceptibly ert.

We like to think this is what we call constructive indolence, and found support for this in no less an organ than the *Journal of Economic Psychology* (or rather, to be truthful, press reports about an article in the *Journal of Economic*

Oldfield Partners LLP has approved and issued this communication for private circulation only; it must not be distributed to private customers. Information contained in this communication must not be construed as giving investment advice within or outside the United Kingdom. This is not an invitation to subscribe for any of the funds mentioned herein. Any reference to stocks is only for illustrative purposes and opinions expressed herein may be changed without notice at any time. The value of all investments and the income from them can go down as well as up; this may be due, in part, to exchange rate fluctuations. Past performance is not necessarily a guide to future performance. Oldfield Partners LLP does not warrant the accuracy, adequacy or completeness of the information and data contained herein and expressly disclaims liability for errors or omissions in this information and data. No warranty of any kind, implied, expressed or statutory, is given in conjunction with the information and data. © 2007. Partnership No. OC309959. GIPS® is a registered trademark of the CFA institute.

Psychology). This reported that goalkeepers who, facing a penalty, did nothing, diving neither to left nor to right, had a hugely better rate of saving the goal than those who dived one way or the other. Yet only 6% of the time do goalkeepers stay in the middle rather than diving. The reason is that "goalkeepers feel worse about a goal being scored when it follows from inaction (staying in the centre) than from action (jumping)."

Investment managers often feel a compulsion to act. It would be natural to react to the awfulness of performance of Japanese shares by ditching them. But the awfulness is what has happened. It says nothing about the future. On the contrary, the result of the awfulness is descent in valuations to levels which, were investors not biased by immediate past performance, look glaringly attractive. We are tempted to have more Japan in the global portfolios.

Valuations elsewhere too look attractive. The price-earnings ratio of US non-financial companies is 20% below its average of the last 20 years. Profit margins have been high, but this undervaluation leaves room for margins to come down a long way.

During March there were some developments which might, just might, indicate a bottom in markets. We do not hang our hats on this. There are plenty of problems which might cause further weakening. The hook on which we hang our hat is that valuations generally, and more specifically in what we own in the various portfolios, seem at a level likely to provide good returns over the next two or three years. But one or two things had a climactic feel to them, Bear Stearns and the reaction of the Fed and the US Government especially.

Larry Summers, the former US Treasury secretary, said in early April "it is not unreasonable to hope that, in the US at least, the financial crisis will remain in remission." Others are more Armageddonist. George Soros wrote in the *Financial Times* on 22nd January a piece under the heading "the worst market crisis in 60 years." In 1987, after the crash, he said "this is 1929". In 1998, after the fall of Long-Term Capital Management, he said that capitalism was "coming apart at the seams." In 1987 and 1998 there turned out to be no wolf after all. This time, of course, it may be a wolf; and anyway this is a very successful wolf-crying boy so we are not knocking Soros; just doubtful about Armageddonism in general.

We have recently read Murray N. Rothbard's seminal (i.e. very long) book on The Great Depression. Some people are making parallels between then and now. On balance the reading of this book was reassuring. First, it really does seem inconceivable (but is that just a failure of imagination?) that industrial production in the US could halve, as it did in the US between August 1929

Oldfield Partners LLP,
130 Buckingham Palace Road, London, SW1W 9SA.
Telephone: +44 (0)20 7259 1000 Email: info@oldfieldpartners.com
www.oldfieldpartners.com
Oldfield Partners LLP is authorised and regulated by the Financial Services Authority
Oldfield Partners LLP has approved and issued this communication for private circulation only; it must not be distributed to private customers. Information contained in this communication must not be construed as giving investment advice within or outside the United Kingdom. This is not an invitation to subscribe for any of the funds mentioned herein. Any reference to stocks is only for illustrative purposes and opinions expressed herein may be changed without notice at any time. The value of all investments and the income from them can go down as well as up; this may be due, in part, to exchange rate fluctuations. Past performance is not necessarily a guide to future performance. Oldfield Partners LLP does not warrant the accuracy, adequacy or completeness of the information and data contained herein and expressly disclaims liability for errors or omissions in this information and data. No warranty of any kind, implied, expressed or statutory, is given in conjunction with the information and data. © 2007. Partnership No. OC309959. GIPS® is a registered trademark of the CFA institute.

and March 1933. Second, the last edition of Rothbard's book was in 1982, and in its introduction Rothbard commits to a variety of prognostications about the coming decade: "we can look forward to an inflationary depression of massive proportions"; "Reaganomics is doomed to be a fiasco"; "the disastrous gradualism of the Thatcher regime". The point of this is, again, not to knock the prognosticator, but to knock prognostication itself. Things have a habit of turning out not quite as expected, and when everyone is expecting things to be terrible, that is what is in markets, and markets may be surprised, just as when everyone is expecting sunshine and laughter there is scope only for disappointment. That is why we put our faith in valuations, rather than in prediction.

Oldfield Partners LLP,
130 Buckingham Palace Road, London, SW1W 9SA.
Telephone: +44 (0)20 7259 1000 Email: info@oldfieldpartners.com
www.oldfieldpartners.com
Oldfield Partners LLP is authorised and regulated by the Financial Services Authority
Oldfield Partners LLP has approved and issued this communication for private circulation only; it must not be distributed to private customers. Information contained in this communication must not be construed as giving investment advice within or outside the United Kingdom. This is not an invitation to subscribe for any of the funds mentioned herein. Any reference to stocks is only for illustrative purposes and opinions expressed herein may be changed without notice at any time. The value of all investments and the income from them can go down as well as up; this may be due, in part, to exchange rate fluctuations. Past performance is not necessarily a guide to future performance. Oldfield Partners LLP does not warrant the accuracy, adequacy or completeness of the information and data contained herein and expressly disclaims liability for errors or omissions in this information and data. No warranty of any kind, implied, expressed or statutory, is given in conjunction with the information and data. © 2007. Partnership No. OC309959. GIPS® is a registered trademark of the CFA institute.