Oldfield Partners LLP
Newsletter Q1 2009

Oldfield Partners has a total of $1.6 billion under management for 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, Tom Taylor, Nigel Waller, and Robert White.

We are pleased to announce that as of 1st April 2009 Lee Tamplin became head of operations for Oldfield Partners, succeeding Jamie Carter who will now focus on the marketing and client relationships of the firm and continue to assist Richard Oldfield in managing the Overstone Opportunity Multi Fund. All operational queries should be directed to Lee who can be contacted on +44 20 7259 1007 or lpt@oldfieldpartners.com.

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, emerging market portfolios, a European equity fund, a smaller companies global equity fund, a Japanese equity fund, and a fund of funds. Overstone Fund plc includes the following:

	Start date	Assets at end Mar 2009
Overstone Global Equity Fund	June, 2005	$784m
Overstone European Equity Fund	October, 2005	$12m
Overstone Opportunity Multi Fund	November, 2005	$16m
Overstone Japanese Equity Fund	October, 2007	$3m
Overstone Smaller Companies Fund*	October, 2007	$2m
Overstone Emerging Markets Equity Fund	November, 2008	$5m

*Overstone Smaller Companies Fund changed its name from Overstone All Cap Equity Fund on 13th October 2008.

We also advise two pooled funds, with assets of $75 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. The focus is on investing in individually attractive companies rather than on considering the respective attractions of different countries or sectors. With rare exceptions the country and sector weightings are the result of stock selection. The largest holdings include Barrick Gold, Microsoft and Vivendi.

From 1st April, the lead manager on the Eccleston Global Fund will be Nigel Waller. For all our other global funds Richard Oldfield remains the lead manager. Richard Oldfield and Nigel Waller, along with the other members of the team, discuss all stocks in global funds and the approach followed will be just the same as hitherto. In a firm in which the lead manager makes the final decision there may nonetheless be differences at the margin – a few stocks in Eccleston Global which are not in the other global funds and vice versa.

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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 Carrefour, Bovis Homes, AP Moller-Maersk and Siemens. The fund has 20 holdings.

Overstone Smaller Companies Fund (previously known as 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 Toll Brothers, Star Micronics and Catlin Group. The fund has 21 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 a thematic approach with the identification of significantly undervalued assets. There are currently 21 holdings, predominantly in medium and large stocks, with a capitalization above US$1 billion. These include Fanuc, Hoya and Seven & I Holdings.

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, concentrated), but who are operating in areas some of which are too specialized for us to be investing in directly – for example, property shares, European micro cap and gold shares.

Overstone Emerging Markets Equity Fund, managed by Tom Taylor, is a concentrated, index ignorant, value-focused approach similar to that of the other funds. The portfolios invest globally across the market cap range, focusing on stock selection rather than a comparison of the attributes of different countries. The portfolios currently hold 19 stocks. These include Buenaventura, Petrobras, Thai Beverage and Chaoda Modern Agriculture.

Performance Summary as at 31st March 2009

Global Equity

US$ terms	Global Equity Composite 1	MSCI World (NDR)
Q1 2009	-11.1%	-11.9%
2008	-38.6%	-40.7%
Since inception *	+27.0%	-33.9%
Since inception per annum *	+2.6%	-4.4%

1 The performance shown is of a composite of global equity portfolios. The returns of this composite during the time in which Richard Oldfield managed the relevant portfolios at Alta Advisers Ltd, before March 2005, are included in the figures for "since inception". 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.

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US$ terms	Overstone Global Equity Fund 2	MSCI World (NDR)
Q1 2009	-10.6%	-11.9%
2008	-38.1%	-40.7%
Since inception *	-18.7%	-24.0%

2 The performance shown is that of the 'A' shares in the Overstone Global Equity Fund and is calculated on a total return basis inclusive of all shareholder distributions but 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).

European Equity

Euro terms	Overstone European Equity Fund 3	MSCI Europe (NDR)
Q1 2009	-1.0%	-9.9%
2008	-48.0%	-44.0%
Since inception *	-28.6%	-35.4%

3 The performance shown is that of the 'A' shares in the Overstone European Equity Fund and is calculated on a total return basis inclusive of all shareholder distributions but 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).

Smaller Companies

US$ terms	Smaller Companies Composite 4	MSCI World Small & Mid-Cap (NDR)	MSCI World (NDR)
Q1 2009	-11.6%	-10.5%	-11.9%
2008	-44.0%	-43.0%	-40.7%
Since Inception *	-27.2%	-26.4%	-24.3%

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

Japanese Equity

US$ terms	Overstone Japanese Equity Fund 5	Topix TR
Q1 2009	-14.9%	-17.1%
2008	-34.4%	-25.8%
Since Inception *	-46.9%	-42.9%

5 The performance shown is that of the 'A' shares in the Overstone Japanese Equity Fund and is calculated on a total return basis inclusive of all shareholder distributions but 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).

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Fund of Funds

US$ terms	Overstone Opportunity Multi Fund 6	MSCI World (NDR)
Q1 2009	-2.9%	-11.9%
2008	-41.5%	-40.7%
Since inception *	-14.6%	-27.8%

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 2009. 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).

Emerging Markets Equity

US$ terms	Emerging Markets Equity Composite 7	MSCI Emerging Markets (NDR)
Q1 2009	+0.8%	+0.9%
2008	-46.6%	-53.3%
Since inception *	+240.7%	+107.9%
Since Inception per annum *	+16.0%	+9.3%

7 The performance shown is of a composite of all emerging markets equity portfolios. The returns of this composite during the time in which Tom Taylor managed the relevant portfolios at Alta Advisers Ltd, before June 2008, are included in the figures for "since inception". Performance is calculated on a total return basis, net of all fees and expenses. A full GIPS® compliant presentation of the emerging markets equity composite performance is available from Oldfield Partners.
* Inception 1 January 2001. Source of data: Alta Advisers Ltd, Pictet, Rawlinson & Hunter (Jersey), Oldfield Partners LLP, MSCI © and Bloomberg.

Commentary

In March, more companies defaulted on their debt obligations than in any month since the early 1970s. Wedgwood and Woolworth are among household names in the UK to have recently bitten the dust, at least in their current corporate guises. General Motors is teetering.

The grandson of the founder of Wedgwood, Josiah Wedgwood, was Charles Darwin. In his bicentenary year survival of the fittest is the current market leitmotif but the notion developed by Darwin's first cousin, Francis Galton, reversion to the mean, is as important. While "this time it's different" have been called the most dangerous four words in investment, "reversion to the mean" have been called the most important.

At times of extreme economic, financial and market volatility, it is easy to get carried away and to think, for example in early 2000, that things will get better and better, or in 2009 that things can only get worse. When investors become prone to these extremes of emotion, facts do not get much of a look in. "Gradgrind, thou shouldst be living at this hour." The facts of market history – derived from the US market which remains the lead market in the world – provide some useful perspective.

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Only once since 1879 has the ten year return of the US stock market been negative until now, and that was in the last few years of the 1930s. In the ten years after that period returns were 7-10% per annum.

The bear market which started in October 2007 is already longer than the average 13 months. If in fact the bear market bottomed in March 2009, its 56% fall is one of the largest ever. From the bottom of a bear market, the subsequent return has averaged 29% over six months and 42% over one year, 15% per annum over five years and 12% over ten years.

Valuations are indisputably low. This is true when valuations are adjusted for cyclicality – either by adjusting to a more normal return on equity, or by taking the last ten years earnings rather than just the last year's, or by focussing on book value rather than on earnings and cash flow, the latter two being flaky in the immediate future. In the past share prices have fallen to less than 7 times earnings. But these have been times when unemployment has been 12-15%, commercial paper yields 12% (1974) or treasury bond yields 15% (1982).

Markets, and valuations, generally overshoot. Nearly every time the inflation-adjusted level of the US equity market has risen more than one standard deviation above its trend rate of growth (of about 6.2% per annum since the year dot), it has subsequently dropped not just back to the trend line but to at least one standard deviation below. However, there is consolation in that the market in due course returns to the trend line. The length of time it has taken to claw its way back to the trend line has varied between about four years (in the early 1930s) and ten years (1918-1928) to around 13 years (1973-1986). So even if there may be a better chance to buy in the coming months or a year or even two, it is still reasonable, based on the example of quite a long history, to expect a real return (after inflation) of around 6.2% over the next thirteen years – or more than that if the starting point is, as now, well below the market trend line.

The argument of the overshoot brigade is hard to dispute but difficult to act on: as investors interested in value, and believing that one should invest when prices appear to offer good value, we find it hard to accept that one should wait simply because prices may move to even lower values. They may not.

This line of thinking, though based on the Gradgrindian facts of market behaviour in the past, may seem rather abstract: it treats the market as though it were operating in a vacuum. Obviously the fundamental background matters; but the awfulness of the present fundamental background may be more than fully discounted in current valuation levels. We have quoted the ever quotable Warren Buffett before: "The future is never clear: you pay a very high price in the stock market for a cheery consensus" and the converse is that you pay a very low price for a cheerless consensus.

We have a fairly cheerless consensus now. Focussed on valuations, we are naturally drawn to the unfashionable – companies where investors may have become shocked or merely frustrated, leading markets to undervalue assets and prospects. There are many today. We

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are extremely dubious about precise forecasting. Things have a habit of turning out unexpectedly. Investing is the art of the probable. We therefore believe in diversification, to ensure that portfolios are not dependent on one big idea turning out to be right, but rather on a range of little ideas, some of which will be right and some wrong.

Some investors have asked whether this belief in diversification is compatible with holding a small number of shares. Our portfolios are much more concentrated than those of many investors. We typically hold, in each fund, around 20 companies. We do this because we think that a concentrated portfolio makes for a concentrated mind, and that every holding should have a significant impact. We do not see the point of holding in a portfolio a company which we think is, say, the 60th or even the 100th most attractive company we can find. Statistical studies show that, provided the investor aims at diversification, it can be got with many fewer companies than most investment managers hold.

Our funds are for equity investors – for the part (or a portion of that part) of their portfolios which clients want to put in equities in the belief that equities are likely to provide a decent return above inflation over the long run, though with a lot of volatility so that every investor needs plenty of cushion of comfort elsewhere. We are fully invested, more or less. When equities are bad, we will be bad too, and we hope then to be simply less bad than markets as a whole. When equities are good, we will look good, and hope to do better than markets. In every company in which we invest, we always look for at least a 25% plausible return over the next 2-3 years; but the reality is that, being fully invested in equities, our portfolios will be bludgeoned or burnished by whatever equity markets generally do. In the long run, however, we aim to produce a return better than the relevant equity markets, and if equities do indeed produce a return well above inflation, then that result should be satisfactory. We believe that, horrible though it is to look back at the immediate past, at current levels of valuation the chances of good returns over the next several years have greatly improved.

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