Oldfield Partners LLP
Newsletter Q2 2007

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

In addition to the global equity portfolios which constitute most of the firm's assets under management, we manage also a European fund, an all cap global equity fund (Eccleston Special Situations Fund), and also a fund-of-funds. Overstone Fund plc includes the following:

	Start date	Assets
Overstone Global Equity Fund	June, 2005	$620m
Overstone European Equity Fund	October, 2005	$26m
Overstone Opportunity Multi Fund	November, 2005	$34m

The Eccleston Special Situations Fund is a sub-fund of a Jersey-based OEIC, and is currently $22 million in size. In addition we advise two pooled funds, with assets of $143 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, currently 19. 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 ConocoPhillips, Vivendi 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 21 holdings.

Eccleston Special Situations Fund, managed by Nigel Waller, is an all cap equity fund that invests globally across the market cap spectrum but focuses mainly 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 Natuzzi, KAS Bank and M&C Saatchi among small companies and Lloyds TSB Bank among large ones. The fund has 22 holdings of which 15 are below $5 billion in market capitalisation.

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

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much too specialized for us to be investing in directly – for example, Taiwan, the water industry, gold shares.

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, from 1st August, Robert White. Robert White, a colleague of Richard Oldfield from Mercury Asset Management days, is a Japanese specialist and in due course we will be launching a Japanese fund which he will manage. We will then have a total staff of ten. We need slightly larger offices and are moving seven doors along the street. From 27th July, our new address will be as follows:

Oldfield Partners LLP
130 Buckingham Palace Road
London SW1W 9SA

The telephone number and other contact details remain unchanged.

Simple but not easy, *a slightly autobiographical and heavily biased book about investing by Richard Oldfield, was published on 27th June. Copies may be ordered from simplebutnoteasy@oldfieldpartners.com or Jessica Fulford-Dobson (jfd@oldfieldpartners.com or 020 7259 1006).*

Performance Summary as at 29th June 2007

Global Equity

US$ terms	Global Equity Composite 1	MSCI World (NDR)
Q2 2007	+6.9%	+6.5%
2007 to date	+9.0%	+9.2%
2006	+22.0%	+20.1%
Since inception *	+137.3%	+26.8%
Since inception per annum *	+12.2%	+3.2%

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.

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US$ terms	Overstone Global Equity Fund 2	MSCI World (NDR)
Q2 2007	+7.3%	+6.5%
2007 to date	+9.5%	+9.2%
2006	+21.4%	+20.1%
Since inception *	+49.0%	+45.8%

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).

European Equity

Euro terms	Overstone European Equity Fund 3	MSCI Europe (NDR)
Q2 2007	+11.5%	+7.0%
2007 to date	+17.9%	+9.6%
2006	+22.7%	+20.0%
Since inception *	+47.6%	+36.3%

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).

Special Situations

GBP terms	Eccleston Special Situations Fund	MSCI World (NDR)
Q2 2007	-1.6%	+4.5%
2007 to date	+3.5%	+6.4%
2006	+22.3%	+5.5%
Since 14/3/2005 *	+44.2%	+35.9%

* the date that Nigel Waller became manager of the fund following the current investment strategy.
Source of data: Oldfield Partners LLP, MSCI ©, Bloomberg and Rawlinson & Hunter (Jersey). Performance is calculated on a total return basis, net of all fees and expenses.

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Fund of Funds

US$ terms	Overstone Opportunity Multi Fund 4	MSCI World (NDR)
Q2 2007	+8.0%	+6.5%
2007 to date	+12.2%	+9.2%
2006	+19.2%	+20.1%
Since inception *	+50.6%	+38.4%

4 The performance shown is an **estimate** of the performance of the Overstone Opportunity Multi Fund, using provisional prices of the underlying funds as at 29th June 2007. 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

Mervyn King, Governor of the Bank of England, said recently: "I cannot recall a time when credit was more easily available." In recent weeks two things have happened. First, there has been a crescendo of concern about the easiness of borrowing, and second, problems among several hedge funds have revealed their vulnerability. It appears that, where fairly unmarketable securities collateralised by packages of low quality loans are concerned, the practice is to "mark to model" rather than to mark to market – in other words to attribute to these securities the prices it would be nice for them to have rather than the prices which they would actually attract if sold.

One of the disadvantages of securitisation, as pointed out succinctly by Chris Wood of CLSA, is that it "removes the incentive of those making the loan to worry about whether the loan is a good credit." The resulting tendency to lower quality lending affects both small loans and large. At the bottom end of the market, house buyers have been urged to borrow quickly and conveniently without having to provide evidence of their earnings or assets. At the top end of the market, banks have been prepared to lend on what is called a cov-lite basis to leveraged buy-out firms. Even if the borrower proves unable to pay the interest, there is sometimes a let-out in that interest can be paid, if necessary, in the form of further securities ("payment in kind", or PIK, securities).

We feel that we have undoubtedly reached a turning point in this process in that senior bankers will, over the last few weeks, have been questioning their lending colleagues about the level of security which they have been demanding from borrowers. Everyone is now tightening up.

On the face of it, the tightening of liquidity is not good for stock markets. But we feel the current situation is a little more complicated. The term by which risky low quality loans, and securities involving such loans, is known is credit (aptly the Latin for "he believes") – in the same way that insurance against death is known as life insurance. There is a tendency to elide equities with credit, because both are what are called risk assets. But this elision is unjustified. Many companies have almost unprecedentedly low levels of debt and high levels of free cash flow, and moderate valuations to boot. Investment in credit, on the other hand, is investment in indebtedness.

Often the leverage represented by that indebtedness is magnified because the investors concerned themselves borrow to leverage their returns. Leverage is itself a euphemistic term, like credit – and like Long-Term Capital Management, and like the latest high profile victim of overreaching, Bear Stearns High Grade Structured Credit Enhanced Strategies Leverage Fund, whose "enhanced" is a reminder of the aphorism of Patrick Hutber, erstwhile City editor of the Sunday Telegraph, that "improvement means deterioration" (as in "we apologise for the delay in answering your call. Our telephone system has just been upgraded.")

Genuinely high quality equities, with strong balance sheets and cash flow, are at the end of the spectrum opposite from that occupied by credit. Tighter liquidity may affect all types of investments, but we think that there is good reason to discern between credit goats and equity sheep.

Although there was a modest downturn in equity markets in June, on the whole markets do seem to have been discerning. Equity investors have not panicked. We do not think they should. Equity markets, and our various funds, have given satisfactory absolute returns so far this year. We have for a while expected greater volatility - and we are now getting it - because the ride in equities since March 2003, and particularly since June 2006, has been remarkably smooth. But we do expect good returns to continue, because we do not think that the economy of the world is going to be blown hugely off course and valuations in the major developed markets remain reasonable.

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