Oldfield Partners LLP
Newsletter Q2 2009

Oldfield Partners has a total of $1.9 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.

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 equity 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 Jun 2009
Overstone Global Equity Fund	June, 2005	$964m
Overstone European Equity Fund	October, 2005	$8m
Overstone Opportunity Multi Fund	November, 2005	$20m
Overstone Japanese Equity Fund	October, 2007	$3m
Overstone Smaller Companies Fund*	October, 2007	$4m
Overstone Emerging Markets Equity Fund	November, 2008	$12m
Overstone Global Ex-US Equity Fund	June 2006	$3m

*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 $86 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 Rio Tinto, Microsoft and Vivendi.

The Ex-US fund managed by Richard Oldfield invests in markets outside the US. As with all Oldfield Partners' activities, the focus is on valuation. The fund is mainly derived from the (non-US) holdings of the Global funds we manage. Among the additional holdings are not only some large companies but other smaller companies, including some that are very small, in which the fund is able to invest because it is currently so small itself.

The European fund, managed by Claus Anthon, has much the same features and philosophy as the Global portfolios, 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 19 holdings.

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Overstone Smaller Companies 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 20 holdings, predominantly in medium and large stocks, with a capitalization above US$1 billion. These include Fanuc, Nintendo 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 24 stocks. These include Buenaventura, Petrobras, Thai Beverage and Chaoda Modern Agriculture.

Performance Summary as at 30th June 2009

Global Equity

US$ terms	Global Equity Composite 1	MSCI World (NDR)
Q2 2009	+13.9%	+20.7%
2009 to date	+1.2%	+6.4%
2008	-38.6%	-40.7%
Since inception *	**+44.5%**	**-20.2%**
Since inception per annum *	**+3.9%**	**-2.3%**

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)
Q2 2009	+13.3%	+20.7%
2009 to date	+1.3%	+6.4%
2008	-38.1%	-40.7%
Since inception *	**-7.9%**	**-8.2%**

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)
Q2 2009	+13.9%	+17.9%
2009 to date	+12.8%	+6.3%
2008	-48.0%	-44.0%
Since inception *	**-18.6%**	**-23.8%**

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)
Q2 2009	+26.3%	+25.6%	+20.7%
2009 to date	+11.7%	+12.3%	+6.4%
2008	-44.0%	-43.0%	-40.7%
Since inception *	**-8.1%**	**-7.6%**	**-8.6%**

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 1 April 2005. Source of data: Oldfield Partners LLP, MSCI ©, Bloomberg, Rawlinson & Hunter (Jersey) and Northern Trust Intl Fund Administration Services (Ireland).

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Japanese Equity

US$ terms	Overstone Japanese Equity Fund 5	Topix (TR)
Q2 2009	+22.6%	+23.8%
2009 to date	+4.2%	+2.6%
2008	-34.4%	-25.8%
Since inception *	**-34.9%**	**-29.2%**

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 1 October 2007. Source of data: Oldfield Partners LLP, MSCI ©, Bloomberg and Northern Trust Intl Fund Administration Services (Ireland).

Fund of Funds

US$ terms	Overstone Opportunity Multi Fund 6	MSCI World (NDR)
Q2 2009	+27.6%	+20.7%
2009 to date	+23.8%	+6.4%
2008	-41.5%	-40.7%
Since inception *	**+8.8%**	**-12.8%**

6 Performance shown is that of the 'A' shares in the Overstone Opportunity Multi Fund and 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)
Q2 2009	+29.5%	+34.7%
2009 to date	+30.6%	+36.0%
2008	-46.6%	-53.3%
Since inception *	**+341.2%**	**+180.1%**
Since inception per annum *	**+19.1%**	**+12.9%**

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.

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Global Ex-US Equity

US$ terms	Overstone Global Ex-US Equity Fund 8	MSCI Eafe (NDR)
Q2 2009	+29.4%	+25.4%
2009 to date	+20.9%	+8.0%
2008	-39.2%	-43.4%
Since inception *	**-14.9%**	**-22.1%**

8 The performance shown is that of the 'A' shares in the Overstone Global Ex-US 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 2006. Source of data: Oldfield Partners LLP, MSCI ©, Bloomberg and Northern Trust Intl Fund Administration Services (Ireland).

Commentary

What a quarter. In the global equity portfolios which we manage, much the largest part of assets under our management, our returns were well behind those of markets generally. Much of this underperformance resulted from our emphasis on companies with very strong balance sheets, seven of the twenty one companies in which we are invested having net cash rather than net debt. These did not fully benefit from the revival in animal spirits, which especially favoured the most highly geared companies. Whether this will continue to be so is an open question. As we have noted before, it is too easy to dismiss a recovery of this sort as a trashy recovery; two years on from the beginnings of recovery, companies which may have started looking trashy finish with quite respectable balance sheets, and during that period may have massively outperformed. This was so in 1991 and 2003, so we are wary of a glib "we're quality and we're all right" attitude. But the valuations in these strongly financed large companies are, it seems to us, remarkably attractive. In nearly every stock in every portfolio we see the potential for a 40% return. We have no idea, of course, when this might happen, if indeed it does. But we do not see any reason to change the emphasis.

The other funds which we run, with the exception of the emerging markets fund because of a similar emphasis, have had a decent first half to 2009, in some cases exploiting the opportunities that there have been among smaller companies. Small companies frequently provide tremendous potential after a cataclysm such as that in 2008 (not that there have been many cataclysms quite like 2008) because they get knocked down to rock bottom valuations, brokerage analysts cease to provide any coverage, and liquidity is very limited. At the first spark of interest in a company – which may have a strong balance sheet, a price earnings ratio of only five or six or seven, and growth in profits in some highly specialised area – there can be a very sharp rise in share price. OOMF, our fund of funds, has also been able to benefit from this, having exposure to other managers who have made the best of what they see in the valuations of smallish companies.

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Having had the recovery from abyss we have now got to the stage where people are wondering whether more trouble lies ahead. Anatole Kaletsky recently made the point that many investors are saying "this time it is different" without hesitating as they normally do because of the knowledge that these words are (as John Templeton called them) the most expensive in investment. In Kaletsky's view, it is just as dangerous to think things wholly different at a time of misery as at a time of euphoria, such as 1999 when there was much talk of the new era. Kaletsky quoted comments from the *Wall Street Journal* and the *Financial Times* that current circumstances were the worst since the depression; and then revealed that these were actually quotes from 1991 papers, in a recession which actually turned out to be among the shallowest – evidence of the fallibility of prediction.

Kaletsky, along with all commentators, would acknowledge that the financial crisis we have just had have been in some ways the worst ever seen, but remarks that the policy reaction has also been the greatest ever seen. This results in a tug of war, and at the moment there is some evidence that the policy response is winning. This is shown, for example, in purchasing managers surveys.

Investing as we do wholly in equity markets, we are likely to have a bias, but the bias has not been unvarying. There are plenty of occasions in our past in which we had viewed the immediate prospects for equities negatively, sometimes right and sometimes wrong. In 2007 we can only claim to have had a moderated form of optimism. We are now, however, more optimistic, for several reasons. First, equities have a historically irrefutable tendency over the long term to provide a good return after inflation, and we see no reason for this to stop. Second, the return over the last ten years has been abysmal, and we bear in mind the paradox enunciated by Peter Bernstein in his book *Against the Gods,* the prospective return of an asset rises as its price falls. We are believers in the idea of reversion to the mean. We used to say that in the past, equities have given a return of around 9.5% in nominal terms, but that as valuations were somewhat higher than normal our expectations should be moderated to, say, 8%. We no longer have to add this rider. It seems reasonable to expect a return in line with, maybe more rather than less, the long term average given the current level of valuations. Third, we remain encouraged by the huge amount of cash in investors' hands. We have the opposite situation now to that before the crash in 1987: then there were all sorts of investors in equities who were not natural equity holders – Middle Eastern corporations with a trading approach, for example. Now there are many natural equity investors who are not invested. Hence, in part, the fact that money market funds in the US have a value 55% of the market capitalisation of the US stock market, a figure never previously matched. The last peak in this figure was around 32% in the early 1980's, a wonderful time to invest in equities.

And then there are the fundamentals. Reality intrudes. The problems of the world certainly seem profound and intractable. It is hard to see how governments can get out of their pickle without either raising taxes or creating inflation, neither of which is a pleasant prospect for equities. It is also hard to see why consumers in western countries should not continue to deleverage. We are not dismissive of these problems. But they are universally recognised.

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Moreover, we have seen before that problems apparently intractable have had unexpected solutions. In the early 1980s, markets were fixated by the level of US trade deficit. It never went away, but it ceased to be seen as such a problem. Later, it was the level of the US budget deficit. It did go away, and many happy hours were spent by policy makers in deliberating about how the surpluses should be invested.

President Obama's chief of staff is said frequently to recite the mantra that the government must be sure to make the most of a crisis. Crises make necessary action which may always have been desirable but avoidable. In the UK the Conservatives have been taking lessons from members of the Canadian government of the 1990s who cut government spending by 23%. No one who has seen the public sector at close quarters can be in any doubt that the last decade and more has been an age of profligacy for the public sector as for the private, and that a really strong-willed government with a big majority could do something about it.

Of all places in the world where there is plenty of crisis Japan figures close to the top of the league. The demographic position is awful, and it is hard to find solace in any economic circumstances. But even there it is worth noting that there has been a transformation in Japan's export profile. In 1999, exports to the US and to the rest of Asia were both about 35% of the total. Now exports to the rest of Asia are 55%, and to the US only 15%. Japan is the sick man of Asia, but its health may be rekindled significantly by Asia. Meanwhile, the valuations of Japanese companies, many of them thoroughly international and having little to do with the domestic Japanese economy, are more and more attractive; and governance has improved, though more slowly than westerners would like. The board of directors of Aderans was recently rejected by shareholders: this does not happen often at US or European AGMs.

All in all, it is easy to look back at the disappointing equity returns of the immediate past, and to look forward to economic uncertainties, and ask "Why bother"? But that is always the way with downturns just as excessive enthusiasm is always the way with upturns. We suspect that many natural equity investors, not now invested, will adapt, if the world continues to turn without major disaster, by adding to their equity holdings, in itself providing impetus to the equity markets at a time when valuations are moderate.

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