Oldfield Partners LLP
Newsletter Q3 2006

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 and a special situations 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	$360m
Overstone European Equity Fund	October, 2005	$16m
Overstone Opportunity Multi Fund	November, 2005	$27m

The Eccleston Special Situations Fund is a sub-fund of a Jersey-based OEIC, and is currently US$11 million in size. In addition we advise two pooled funds, with assets of $70 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 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 20. There is little ex ante decision-making about the attractions of particular countries. The country weightings are the result of stock selection. An exception is Japan where the Oldfield Partners portfolios, and their predecessors under Richard Oldfield's management, have had an enthusiastic percentage invested since well before it was healthy to be enthusiastic, in 2002. The current main themes are Japan and "quality growth", and the largest holdings include BSkyB, Shinsei Bank, and Microsoft.

The European fund is managed by Claus Anthon, who spent 23 years at the SG Warburg/Mercury/MLIM group. It has much the same features and philosophy as the global fund, except that it digs deeper in terms of company size, and generally has a bias towards under-researched markets such as Belgium, Austria and Scandinavia (where Claus has long experience). As a firm we look for stocks which seem to us excessively tainted and neglected or at least, we think, misunderstood by the market, and current holdings include; Akbank, the Turkish Bank; Kone, the Finnish lift and escalator manufacturer and Royal Caribbean Cruises, listed in Norway.

Our main global funds concentrate on the largest capitalisation stocks, generally well over $10bn - the average market capitalisation of companies whose shares we hold is now US$76bn. We frequently find interesting and undervalued small and mid-sized companies too. This is where the Eccleston Special Situations Fund fits in. The fund is managed by Nigel Waller who began his investing career working with Richard Oldfield in 1994 on the global equity team at Mercury Asset Management. He manages this fund with a similar philosophy to that of our other funds at Oldfield Partners – concentrated and index ignorant, with the usual emphasis on cash flow and value, but the companies included range from one of the largest companies in the world, Microsoft, to the very small – Natuzzi, KAS Bank – where we think long term virtues have been truly overlooked. Some themes and individual holdings are common to the Global or European funds – Microsoft, Nokia, Storebrand, Akbank. Eccleston Special Situations (EccsS in our domestic jargon) has a higher risk tolerance than that of our main global funds. This tolerance allows us to get involved sometimes in more speculative situations such as the takeover of Arcelor earlier this year. The fund has 20 holdings of which 14 are below $10bn 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 much too specialized for us to be investing in directly – for example, Taiwan, the water industry, gold shares.

Oldfield Partners has a total of $1.7 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, and Nigel Waller.

Performance Summary as at 30 September 2006

Global Equity

US$ terms	Global Equity Composite 1	MSCI World (NDR)
Q3 2006	+5.0%	+4.5%
CY to date	+14.7%	+10.8%
Since 11/03/05	+24.6%	+19.7%
Since inception *	+266.8%	+92.7%
Since inception per annum *	+14.3%	+7.0%

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. Performance is calculated on a total return basis and is net of investment management fees and expenses. Before 11th March 2005 fees were substantially lower, in broad terms close to 1% less, than those charged by Oldfield Partners.
* Inception 1 Jan 1997. Source of data: Alta Advisers Ltd, Pictet, Oldfield Partners LLP, MSCI © and Bloomberg.

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

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US$ terms	Overstone Global Equity Fund 2	MSCI World (NDR)
Q3 2006	+4.6%	+4.5%
CY to date	+14.1%	+10.8%
Since inception *	+27.8%	+23.2%

2 The performance shown is that of the 'A' shares in the Overstone Global Equity Fund and is calculated on a total return basis, 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)
Q3 2006	+4.6%	+6.4%
CY to date	+10.6%	+11.9%
Since inception *	+12.8%	+16.0%

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).

Fund of Funds

US$ terms	Overstone Opportunity Multi Fund 4	MSCI World (NDR)
Q3 2006	+1.5%	+4.5%
CY to date	+7.8%	+10.8%
Since inception *	+21.4%	+17.0%

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 30 September 2006. 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).

Special Situations

GBP terms	Eccleston Special Situations Fund	MSCI World (NDR)
Q3 2006	+1.8%	+3.1%
CY to date	+14.6%	+1.7%
Since 11/3/2005 *	+30.6%	+23.2%

* 11 March 2005 was the date that Nigel Waller began managing the fund under 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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Commentary

Not much has been heard in recent years of the cult of the equity, a somewhat snooty phrase suggestive of pagan pre-enlightenment naivety. Three years ago, at just about the bottom for world stock markets, one of us attended a family office conference at which a subject on the agenda was "Are equities a proper asset class for families?" This was semi-ironic, but expectations were certainly low. They have remained surprisingly low despite the fact that world markets are up by 95% (MSCI World net dividends reinvested).

We have been on the whole resolutely optimistic, with the exception of some concern about what appeared to be froth in emerging markets and elsewhere earlier this year. The falls in May and June got rid of much of the froth. It seemed to us that world markets were like someone who has been holding his breath for a long time: it cannot last, but after he has given up and taken a new breath (the May/June setback) he can keep going for quite a while.

There has been a serious bounce since that new breath, but valuations seem to us sufficiently moderate that equities can continue generally to perform well. The average price-earnings ratio of the top ten companies in the S&P 500 at the end of 1998 was 47 times; the average of those same companies now is 17 times. That is not outstandingly cheap but it is certainly different. It is interesting also that, whereas there were four technology companies in the top ten in 1998, now there is only one, Microsoft. This sector looks to us, after its long period in the doldrums, now a much more attractive area, with signs of increased technology spending and low valuations.

There is certainly no cult of the equity in Japan, equities account for less than 8% of total financial assets of households, while the comparable figure in the US is 30%. Japanese private pension funds have a quarter of their assets in equities, while the comparable US figure is 65%. With deflation over, revenues of Japanese companies are likely to grow modestly and profits by much more. The Japanese market has already risen strongly from its lows in 2003 but we feel we are no more than at the end of the beginning of a new and more cheerful phase after the bleak 1990's.

In our global equity portfolios the average price-earnings ratio now is under 15, and the price-cash flow ratio under 8 – in both cases well under average market levels. We are not "absolute return" investors in the sense that, although we aim to make money in every investment, we are fully invested in equities, in global, European, special situations, and the fund-of-funds, and so if markets are lousy we are likely to be lousy too. But in current circumstances, with current valuations, in spite of all the things around the world which there are to worry about, we do not think that markets will be lousy; and we see plenty of opportunities to make, touch wood, a decent return.

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