

# OLDFIELD PARTNERS LLP

## NEWSLETTER Q3 2009

*Oldfield Partners has about \$2.3 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 23<sup>rd</sup> October 2009 Chris Driver joined Oldfield Partners, replacing Lee Tamplin as head of operations. All operational queries should be directed to Chris who can be contacted on +44 20 7259 1007 or [cd@oldfieldpartners.com](mailto:cd@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 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:

	<u>Start date</u>	<u>Assets at end Sept 2009</u>
Overstone Global Equity Fund	June, 2005	\$1,097m
Overstone European Equity Fund	October, 2005	\$10m
Overstone Opportunity Multi Fund	November, 2005	\$23m
Overstone Japanese Equity Fund	October, 2007	\$4m
Overstone Smaller Companies Fund	October, 2007	\$5m
Overstone Emerging Markets Equity Fund	November, 2008	\$23m
Overstone Global Ex-US Equity Fund	June 2006	\$5m

We also advise two pooled funds, with assets of \$99 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](mailto: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 20. 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 Canon, Rio Tinto and Microsoft.

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

Oldfield Partners LLP,

130 Buckingham Palace Road, London, SW1W 9SA.

Telephone: +44 (0)20 7259 1000 Email: [info@oldfieldpartners.com](mailto:info@oldfieldpartners.com)

[www.oldfieldpartners.com](http://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. © 2009 Partnership No. OC309959. GIPS® is a registered trademark of the CFA institute.

# OLDFIELD PARTNERS LLP

## NEWSLETTER Q3 2009

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 21 holdings.

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 M&C Saatchi, Canon Marketing Japan and Lexmark International. 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 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 Emerging Markets Equity Fund, managed by Tom Taylor, has a concentrated, index ignorant, value-focused approach similar to that of the other funds. The portfolio is invested globally across the market cap range, focusing on stock selection rather than on a comparison of the attributes of different countries. The portfolio currently holds 24 stocks. These include Buenaventura, Petrobras, Thai Beverage and Chaoda Modern Agriculture.

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.

---

### **Performance Summary as at 30<sup>th</sup> September 2009**

#### **Global Equity**

<b>US\$ terms</b>	<b>Global Equity Composite 1</b>	<b>MSCI World (NDR)</b>
Q3 2009	+15.3%	+17.4%
2009 to date	+16.7%	+24.9%
2008	-38.6%	-40.7%
<b>Since inception *</b>	<b>+66.6%</b>	<b>-6.2%</b>
<b>Since inception per annum *</b>	<b>+5.4%</b>	<b>-0.7%</b>

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.

[Oldfield Partners LLP](#),

130 Buckingham Palace Road, London, SW1W 9SA.

Telephone: +44 (0)20 7259 1000 Email: [info@oldfieldpartners.com](mailto:info@oldfieldpartners.com)

[www.oldfieldpartners.com](http://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. © 2009 Partnership No. OC309959. GIPS® is a registered trademark of the CFA institute.

# OLDFIELD PARTNERS LLP

## NEWSLETTER Q3 2009

US\$ terms	Overstone Global Equity Fund 2	MSCI World (NDR)
Q3 2009	+15.1%	+17.4%
2009 to date	+16.6%	+24.9%
2008	-38.1%	-40.7%
<b>Since inception *</b>	<b>+6.0%</b>	<b>+7.8%</b>

<sup>2</sup> 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)
Q3 2009	+18.2%	+17.9%
2009 to date	+33.3%	+25.4%
2008	-48.0%	-44.0%
<b>Since inception *</b>	<b>-3.8%</b>	<b>-10.1%</b>

<sup>3</sup> 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)
Q3 2009	+15.5%	+21.5%	+17.4%
2009 to date	+29.0%	+36.4%	+24.9%
2008	-44.0%	-43.0%	-40.7%
<b>Since inception *</b>	<b>+6.1%</b>	<b>+12.2%</b>	<b>+7.3%</b>

<sup>4</sup> 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).

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. © 2009 Partnership No. OC309959. GIPS® is a registered trademark of the CFA institute.

# OLDFIELD PARTNERS LLP

## NEWSLETTER Q3 2009

### Japanese Equity

US\$ terms	Overstone Japanese Equity Fund 5	Topix (TR)
Q3 2009	+7.6%	+5.9%
2009 to date	+12.2%	+8.7%
2008	-34.4%	-25.8%
<b>Since inception *</b>	<b>-29.9%</b>	<b>-25.0%</b>

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).

### Emerging Markets Equity

US\$ terms	Emerging Markets Equity Composite 6	MSCI Emerging Markets (NDR)
Q3 2009	+28.2%	+20.9%
2009 to date	+67.4%	+64.4%
2008	-46.6%	-53.3%
<b>Since inception *</b>	<b>+465.5%</b>	<b>+238.7%</b>
<b>Since inception per annum *</b>	<b>+21.9%</b>	<b>+15.0%</b>

6 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.

### Fund of Funds

US\$ terms	Overstone Opportunity Multi Fund 7	MSCI World (NDR)
Q3 2009	+13.1%	+17.4%
2009 to date	+40.0%	+24.9%
2008	-41.5%	-40.7%
<b>Since inception *</b>	<b>+23.0%</b>	<b>+2.4%</b>

7 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).

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. © 2009 Partnership No. OC309959. GIPS® is a registered trademark of the CFA institute.

# OLDFIELD PARTNERS LLP

## NEWSLETTER Q3 2009

### Global Ex-US Equity

US\$ terms	Overstone Global Ex-US Equity Fund <sup>8</sup>	MSCI Eafe (NDR)
Q3 2009	+11.9%	+19.5%
2009 to date	+35.3%	+29.0%
2008	-39.2%	-43.4%
<b>Since inception *</b>	<b>-4.8%</b>	<b>-6.9%</b>

<sup>8</sup> 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

There is still nothing much wrong with the level of valuations. The current price to book value ratio of the European markets, for instance, is lower than it has been nearly all the time since the early nineties. Developed markets as a whole appear moderately cheap. Emerging markets, even after their huge rise, are at valuations around their historic averages. The Japanese market, the mere mention of which tends to provoke either groans or snores, is outstandingly cheap, with more than half of quoted companies standing at below their book value.

“We don't need to bother about Japan, do we?” suggested one investment committee chairman, rhetorically, recently. We will bother about it briefly before moving on. Queen Victoria once suggested some change to her prime minister, Lord Salisbury, to which he responded: “Change, Ma'am? Surely things are quite bad enough as they are.” We feel that the position in Japan may be exactly the reverse of the Queen Victoria/Salisbury position. The change of government in Japan seems likely to mean something, and something could hardly be worse. There are some who think that Japan will remain a prisoner of bureaucratic and demographic paralysis. Herbert Guersh of the Kiel Institute has suggested that there may be a category of economies that should be classified as newly declining countries (NDC's). Japan certainly qualifies. But the opening moves of the Hatoyama government in cutting back on indiscriminate public works projects are a positive step. The economy remains deep in the doldrums, not helped in the long term by the demographic position and in the short term by the strength of the yen. Many companies have been frustratingly slow to reform. This is reflected in the fact that the unemployment rate is as low as 5.5% in a country going through a depression. However, there are also many companies which have taken the sort of restructuring steps which in the west are much more common. The moment at which many investors seem ready to write Japan off may be – since that is so often the way markets work – the moment to re-visit. Technologically, Japan remains very strong, spending more on research and development than any country in the OECD except Finland and Sweden - 3.4% of GDP, compared with 2.6% for the US and 1.7% for the UK.

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. © 2009. Partnership No. OC309959. GIPS® is a registered trademark of the CFA institute.

# OLDFIELD PARTNERS LLP

## NEWSLETTER Q3 2009

While Japan has been the big geographical laggard in the dazzling recovery in markets since March, sectorally the laggard has been the area of markets called “quality” – companies with low levels of debt, high returns on equity, and large market capitalisations. Between the end of February and the end of September, stocks rated A+ by Standard & Poors on these criteria gave a return of 36%, while stocks rated C gave a return of 82%. Small companies in general, companies with high financial leverage, and highly cyclical companies, have massively outperformed. Usually, one has to pay up for quality, and this poses a dilemma. Today, there is no dilemma, because quality comes at a bargain price. It would be a mistake to ignore all other trends and opportunities and to bundle the whole of a portfolio into such companies. Our global portfolios have already had an emphasis on quality. This has been harmful in relative performance at a time of strong recovery in markets with many companies’ share prices surging from rock bottom levels of valuation, but following this move we think that an emphasis on quality is even more justified. Quality looked cheap at the beginning of the year. It looks cheaper now. The elastic band may become more stretched so that the focus remains elsewhere in the short term, but at some time the elastic band is likely to snap back.

Expectations about economic and profit recovery, utterly gloomy only six months ago, may have become a little complacent, and this may be true of markets too. It is certainly true that corporate costs have been cut dramatically and that some pick up in demand should increase profit margins strongly. But only a year or two ago it was generally acknowledged that return on equity and profit margins were abnormally high. Profits as a proportion of GDP had reached a record level. To expect profit margins to break these records seems optimistic unless there is remarkably strong growth in revenues as well as constraint of costs.

Since March there seem to us to have been two phases in markets. First, amidst considerable gloom with still the pervading belief that no economic recovery was in sight, investors who have much less than their normal exposure to equities began to add as markets rose, fairly calmly. Second, in the last two or three months, amidst much greater optimism about economic recovery, there has been a more agitated pursuit of equities by investors nervous of being left out.

Interest rates are low and seem likely to remain low. There are mutterings that at some point interest rates will rise, but we suspect for the time being there will be no more than mutterings. We would not be surprised after the spectacular rise in markets in the last six months to see some pause. One of the indicators of the potential for equities earlier in the year was that the value of money market funds as a proportion of the value of equity markets was at record levels. Money held in these funds is not all capable of being swept into equities, but the figures at least give some idea of the relative popularity at the time of equities and of cash. In March, money market funds were 35% of the market capitalisation of the New York Stock Exchange and Nasdaq combined. In September, this figure had fallen to 24%. Cash on the sidelines is still enormous, though this is a big change.

Oldfield Partners LLP,  
130 Buckingham Palace Road, London, SW1W 9SA.  
Telephone: +44 (0)20 7259 1000 Email: [info@oldfieldpartners.com](mailto:info@oldfieldpartners.com)  
[www.oldfieldpartners.com](http://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. © 2009. Partnership No. OC309959. GIPS® is a registered trademark of the CFA institute.