Oldfield Partners LLP
Newsletter Q4 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	$433m
Overstone European Equity Fund	October, 2005	$19m
Overstone Opportunity Multi Fund	November, 2005	$30m

The Eccleston Special Situations Fund is a sub-fund of a Jersey-based OEIC, and is currently US$12 million in size. In addition we advise two pooled funds, with assets of $122 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 20. 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 BSkyB, Shinsei Bank, and Microsoft.

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; Akbank, the Turkish Bank; Kone, the Finnish lift and escalator manufacturer and Royal Caribbean Cruises, listed in Norway. The fund has 22 holdings.

Eccleston Special Situations Fund, managed by Nigel Waller, focuses mainly on interesting and undervalued small and mid-sized companies as well as on larger companies where for some reason the situation does indeed appear special. 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 and KAS Bank among small companies and Microsoft and France Telecom among large ones. The fund has 20 holdings of which 14 are below $5bn in market capitalisation.

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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 $2 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.

<u>Performance Summary as at 29 December 2006</u>

Global Equity

US$ terms	Global Equity Composite 1	MSCI World (NDR)
Q4 2006	+6.4%	+8.4%
2006	+22.0%	+20.1%
Since 11/03/05	+32.5%	+29.7%
Since inception *	+290.2%	+108.9%
Since inception per annum *	+14.6%	+7.6%

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.

US$ terms	Overstone Global Equity Fund 2	MSCI World (NDR)
Q4 2006	+6.4%	+8.4%
2006	+21.4%	+20.1%
Since inception *	+36.0%	+33.5%

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).

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European Equity

Euro terms	Overstone European Equity Fund 3	MSCI Europe (NDR)
Q4 2006	+11.0%	+7.2%
2006	+22.7%	+20.0%
Since inception *	+25.2%	+24.3%

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).

Fund of Funds

US$ terms	Overstone Opportunity Multi Fund 4	MSCI World (NDR)
Q4 2006	+10.5%	+8.4%
2006	+19.1%	+20.1%
Since inception *	+34.0%	+26.8%

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 29 December 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)
Q4 2006	+6.7%	+3.7%
2006	+22.3%	+5.5%
Since 14/3/2005 *	+39.4%	+27.7%

* 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.

Commentary

A leading London merchant bank in the 1960's used to appoint as non-executive directors eminent former diplomats and civil servants, who then entertained their contacts to lunch, often inviting at the same time one or two promising young executives. At one such lunch the British Ambassador to Ethiopia was being entertained. After engaging in high level diplomatic gossip for most of the meal, his host suddenly became aware of his two young protégés sitting silently at the end of the table "So," he exclaimed, casting wildly around for something to bring them into the conversation, "the Ethiopian markets. Which is it to be, equities or convertible bonds?"

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The investor may feel today that he has to rummage pretty deeply in the barrel of potential investments before he comes across some undiscovered gem. High yield bonds, Russian equities, a Jackson Pollock picture, and Battersea power station have one thing in common: they all cost an arm and a leg. There are very few types of asset which do not seem already to have attracted overwhelming interest. Oak furniture appears almost uniquely neglected.

Yet, as the investor’s desperate fingers alight on those Ethiopian convertible bonds, his sleeve brushes past some less exotic articles which are the oak furniture of the investment world: the shares of large, well known, companies, worldwide, have been oddly overlooked in the rush by investors to the exotic. In terms of price earnings ratio the European and US stock markets, particularly when it comes to the largest companies, are still moderately priced, while the Japanese market, at 1.8 times book value and at a price level still less than half its level at its peak at the end of 1989, is a special case. Even the Asian markets excluding Japan – which give the impression of having been in a whirl of excitement for years – have only just moved through the previous all time high which they touched in January 1994.

At the top of the Tiz’n’Test pass through the Atlas mountains in Morocco is a café and beside it a van selling bits and pieces. Painted on the side of this van for the last twenty years or more have been the words “Notex Pensive”. There have been few occasions when these words could have been written of the US stock market over the last 15 years – after all it was more than 10 years ago that Alan Greenspan worried about irrational exuberance. But “Notex Pensive” deserves to be emblazoned above the US, and other, major equity markets now, and above some of the leading shares in them.

We continue to have great expectations for Japan’s recovery from deflation. The value of the Japanese economy is still below its peak level 10 years ago, while the economy of the US has grown by 60% and of Europe by 46%. We see no reason why the return on equity of Japanese companies, which now averages just below 10%, should not rise by several points – closer to the US and European levels of around 17 -18%. This would do wonders for corporate profits. There are two ways in which this may happen. First, Japanese companies will continue to address their cost base. Even with the economy still semi-stagnant, the non-financial sector has record corporate profits because much has already been done, but there is a great deal more still to do. Some of this will simply be because of the passage of time. NTT has 200,000 employees, and will lose half of these over the next decade as they retire, cutting costs by $1 billion per annum. Second, companies are likely to buy back their shares to a much greater extent, using the abundant cash in their balance sheets and in annual cash flow.
There are as always plenty of risks. Inflationary pressures may make it necessary for interest rates to be raised to an uncomfortable level. The US and world economy might be weaker than expected. One main reason to worry is that there is so little worry about. The volatility of markets is at a thirty year low, and the number of advisory newsletters which are optimistic about stock markets is uncomfortably high. During the last four years, there has not been a single period in which the US stock market has fallen by 10% or more – though plenty of other markets, especially emerging markets, have seen larger falls. In the shorter term, there has not been a single day in which the US market has fallen by more than 2% since 19th May 2003. This sort of serenity is asking for trouble.

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Just the fact that the sailing has been so smooth is enough reason to be a little nervy about short term prospects. But on balance we remain optimistic, given the level of valuations and the tremendous liquidity around the world.

Equities are long term investments. They give high returns after inflation over the long term, and in exchange for this there are occasional hard knocks. Few people are clever enough both to get out before the knock and to return immediately after it. So some volatility has to be expected, and particularly after a time in which there has been so little. But taking a long view, we see no reason to expect anything other than a normal return from equities. In the very long term, equities have given a return (before inflation) of around 9-10%, and around 6-7% after inflation. That, we feel, remains a reasonable macro-expectation. At the micro-level, which is the area in which we operate, we see plenty of opportunities – not only among large global companies, but among smaller companies in which we invest in our European fund and in the special situations fund.

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