Oldfield Partners LLP
Newsletter Q4 2009

Oldfield Partners has about $2.6 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 Dec 2009
Overstone Global Equity Fund	June, 2005	$1,198m
Overstone European Equity Fund	October, 2005	$11m
Overstone Opportunity Multi Fund	November, 2005	$24m
Overstone Japanese Equity Fund	October, 2007	$3m
Overstone Smaller Companies Fund	October, 2007	$5m
Overstone Emerging Markets Equity Fund	November, 2008	$39m
Overstone Global Ex-US Equity Fund	June 2006	$5m

As of 1st February all of these funds can be dealt in daily by investors, with the exception of Overstone Opportunity Multi Fund where dealing will remain monthly. The holders of the Europe, Japan, Global Ex-US, Smaller Companies and Emerging markets funds will receive letters about this since there is a small increase in the administrative fee charged by Northern Trust. There is no change in fees in respect of the Global fund.

We also advise two pooled funds, with assets of $114 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 never has more than 25 holdings and currently has 23. 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, Vodafone and Microsoft.

The Global 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.

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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 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, managed by Richard Oldfield and Jamie Carter. It aims at return without much concern with volatility, and is 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 agriculture shares.

Performance Summary as at 31st December 2009

Global Equity

US$ terms	Global Equity Composite 1	MSCI World (NDR)
Q4 2009*	+7.4%	+4.1%
2009*	+25.4%	+30.0%
2008	-38.6%	-40.7%
Since inception**	**+78.9%**	**-2.4%**
Since inception per annum**	**+6.0%**	**-0.2%**

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.

* Estimate data used for December 2009.

** 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)
Q4 2009	+7.6%	+4.1%
2009	+25.4%	+30.0%
2008	-38.1%	-40.7%
Since inception *	**+14.0%**	**+12.2%**

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)
Q4 2009	+3.8%	+5.5%
2009	+38.3%	+32.2%
2008	-48.0%	-44.0%
Since inception *	**-0.2%**	**-5.2%**

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)
Q4 2009	+3.7%	+3.1%	+4.1%
2009	+33.8%	+40.7%	+30.0%
2008	-44.0%	-43.0%	-40.7%
Since inception *	**+10.1%**	**+15.7%**	**+11.7%**

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)
Q4 2009	-8.0%	-3.2%
2009	+3.2%	+5.2%
2008	-34.4%	-25.8%
Since inception *	**-35.5%**	**-27.4%**

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)
Q4 2009	+9.9%	+8.5%
2009	+83.9%	+78.5%
2008	-46.6%	-53.3%
Since inception *	**+521.3%**	**+267.6%**
Since inception per annum *	**+22.5%**	**+15.6%**

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)
Q4 2009*	+5.1%	+4.1%
2009*	+47.2%	+30.0%
2008	-41.5%	-40.7%
Since inception**	**+29.3%**	**+6.6%**

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.
* Estimate data used for December 2009.
** Inception 1 November 2005. Source of data: Oldfield Partners LLP, MSCI ©, Bloomberg and Northern Trust Intl Fund Administration Services (Ireland).

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Global Ex-US Equity

US$ terms	Overstone Global Ex-US Equity Fund 8	MSCI Eafe (NDR)
Q4 2009	+5.2%	+2.2%
2009	+42.2%	+31.8%
2008	-39.2%	-43.4%
Since inception *	**+0.1%**	**-4.9%**

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

The ten years which began on January 1st 2000 produced 9/11, wars in Iraq and Afghanistan, tsunami, the bursting of one stock market bubble at the beginning and a financial crisis at the end. It was one of the rare ten year periods in which equities gave a negative return.

It has also been a period of US decline, exemplified in the closing fortnight of last year at Copenhagen when the US and the West were humiliated, the President of Sudan, in cahoots with China, likening US policy to the Holocaust.

In some ways the position of the US is reminiscent of 1979-80 when one of us was based in New York. The city was nearly bankrupt, interest rates and inflation were in the mid-teens, the Carter presidency was ending in the ignominy of hostages held in the Tehran embassy and helicopters crashing in the desert. At that time Americans looked enviously on every bookstall at the masses of books proclaiming the supremacy of the Japanese way of doing things. But intractable problems did have a solution. President Reagan promised to make America walk tall again, and did. In fact this was a marvellous time to invest. Those who invested then did so not because they were enraptured by the sighting of that buxom lady Miss Rosy Scenario but because they saw valuations which implied more trouble than there might actually turn out to be.

The level of government debt, and the likelihood of higher taxation and consumer deleveraging, cloud prospects. It is hard to see the way out. But in the late 80s the budget deficit (admittedly not as bad as now) in the US seemed equally intractable; it disappeared, and many happy hours were spent by politicians in consideration of how the surplus should be spent. A quotation attributed to Cicero (actually from a 1965 novel by Taylor Caldwell) is currently circulating: "the budget should be balanced, the treasury should be refilled, public debt should be reduced, the arrogance of officialdom should be tempered, lest Rome become bankrupt." Concerns about sovereign debt are not new. *Lustrum* by Robert Harris shows Cicero's Rome in around 63BC to be in a rather worse state than New York in 1979. But this was followed by a glorious fifteen years or so, and the triumphs of Julius Caesar.

We are cautious about predicting that current problems will not be solved, as we are about most

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predictions. From time to time we dust off the story of the Nobel Laureate Kenneth Arrow, who, employed as a meteorologist in the US Air Force during the Second World War and expected to produce medium term weather forecasts, quickly concluded that the latter were no better than randomly right and asked to be relieved of this responsibility. The reply came back: “The Commanding General is well aware that your forecasts are no good. However, they are essential for planning purposes.”

The US has been good in the past at bouncing back, and, for planning purposes, it would be dangerous to assume that it will not this time. One reason that we are relatively optimistic about the economy in the short term is that the level of inventories is so low. From peak to trough, real inventories dropped by nearly 9%, more than twice as much as in the recession in 1982, and several times as much as in 1974. The inventory/sales ratio is unusually low. This is not all that surprising since we can all recall how everything seemed to stop in October 2008. Company spending was curtailed, people were laid off, working capital conserved. After a fierce recession, a sharpish recovery in growth is more to be expected than not. In economics there is even a Rule with a name for this rather ordinary principle, the Zarnovitz Rule: “Deep recessions are almost always followed by steep recoveries.”

If looking for recovery – especially focussed more on stock markets than on economies - one of the best places to start is Japan. A recent economic review about Japan was entitled “Stronger governance should resolve crisis”. Wings should enable pigs to fly. But the crisis of the last two years, on top of the malaise of the last twenty years, has pushed corporations to reduce cross-shareholdings, costs, and unprofitable activities, and to pay a little more attention to shareholders, even if progress is frustratingly slow. Valuations in Japan are the most attractive in living memory. In 1989, when the Japanese stock market peaked, it accounted for 45% of world stock market capitalisation; now it is 7%. The US percentage is not much changed: 26% in 1989, 28% now.

The new entrant is of course China, 7% now, just behind Japan and ahead of the UK. It can be no surprise that a vast country like China with a vast population has a larger stock market than the UK. All the same, we are concerned that things are getting out of hand in China as a result of a huge expansion in credit, infrastructural and other fixed capital investment which has grown at an unsustainable rate, and a housing boom. In major cities, the ratio of the average house price to average income is between 15 and 20 times; at the peak of their respective property booms, the level of this ratio was 9 in London and 12 in Los Angeles.

Our bet would be that some of the enthusiasm about the Chinese stock market abates. China is a large part of the emerging markets generally. Strong inflows into the emerging markets in 2009 have pushed the MSCI Emerging Markets index to approximately 18 times historic earnings and twice book value. Our own emerging market fund has a portfolio valued at a more modest historic price earnings ratio of 11 and a price to book ratio of 1.8, and we continue to feel this area is full of opportunity. We suspect also that some of the gloom about the US will lift, and what goes for the US usually goes for Western Europe, where, in Germany particularly, an industrial recovery seems underway. If not too gloomy about the US and Western economies then it is possible to be not too gloomy about Western stock markets. Valuations may not be remarkably cheap – though in Europe they are - but they are not unreasonably high, and a ten year period in which returns are negative is a great rarity, usually followed by a period when returns are more than satisfactory (Japan from 1990 to 2009 being an exception to this).

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The way in which valuations have changed over the last ten years is demonstrated in the figures below which show the price-earnings ratios, at the end of 1999 and 2009, of the companies in the Morgan Stanley Capital International World Index which had market capitalisations larger than $140 billion in December 1999.

	1999	2009
AIG	33.8	-
ATT	24.7	13.3
AOL	172.4	-
British Telecom	41.9	7.8
BP	46.0	15.6
Cisco	121.7	22.1
Citigroup	30.7	-
Deutsche Telecom	79.8	29.9
Exxon	37.6	17.4
GE	49.3	14.4
IBM	24.8	12.5
Intel	43.8	41.6
Home Depot	70.6	19.4
Coca-Cola	47.0	21.1
Lucent	59.5	-
Merck	27.7	9.3
Microsoft	71.6	19.0
NTT	46.2	9.9
NTT Mobile	183.7	14.0
Nokia	94.6	22.8
Oracle	115.1	19.5
Procter & Gamble	40.0	16.9
Toyota	52.5	-
Vodafone	77.3	8.0
Walmart	59.1	16.0

In 1999 there were no price-earnings ratios among these companies lower than 20 and in fact only three lower than 30. In 2009 (complicated by the fact that five had negative ratios because there were losses rather than earnings) there were only five ratios higher than 20, 14 lower, of which four were lower than 10. Moreover, the 2009 figures are higher than they might be, because the earnings on which the ratios are based are those of the last (published) twelve months, and these have been depressed during the recession. So the comparison is even more favourable.

Markets fell hugely in 2008. Although the rise since March 2009 has been formidable, the world index is still some 22% below its level at the start of 2008. During 2009, Asia, ex-Japan, has been the outstanding performer. We think it is not too late to say, in terms of investment in companies if not assuredly in economic outlook:

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And not by eastern windows only
When daylight comes, comes in the light.
In front, the sun climbs slow, how slowly,
But westward, look, the land is bright!

Googling the author of this, A. H. Clough, we find something else apt on which to conclude with hopes for a happy 2010:

The world is very odd we see,
We do not comprehend it;
But in one fact we all agree,
God won't, and we can't, mend it.

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