

‘What do you exist for?’ This testing question was the opening gambit of a prospective client. The answer is simple. Our purpose is to do well for our clients: over the long term – over, say, the next ten years – to justify the fees we charge by producing returns significantly higher than those of the relevant market indices, which normally can be expected to mean in absolute terms returns several per cent higher than the rate of inflation. To succeed in this purpose, we have an investment philosophy which we believe in and which is not complicated – a belief above all in the importance of valuations both to limiting risk and to achieving returns. We have a straightforward process of decision-making, and a team of individuals committed to serving our clients and grateful for their trust, and confident that we can do the job.

There are times when it all goes terribly wrong – when value investing is moribund. We have been through one of those phases. The great advantage of existing now is that circumstances favour the sort of thing we do so strongly – as Sam Ziff writes in our Global newsletter and Charles Sunnucks in our emerging markets newsletter, the valuations of the stocks in our portfolios are low, reflecting the fact that they have been in the shadows during the unusually long period since 2007 of low-interest-rate-induced supremacy of growth stocks. We believe that our portfolios have plenty of upside, and no bubble characteristics. We have not been flying too close to the sun.

It is difficult as a value investor to write a broad investment piece without huffing and puffing about some of the Icarus excesses in markets. There are glaring anomalies: companies with a business consisting solely of holding Bitcoins worth x trade at a market capitalisation of 2x. This is equivalent (tax treatment aside) to an investment trust or closed-end fund at a 100% premium; by contrast the shares of RIT, the investment trust of the Rothschild family, which only five years ago were trading at a premium to net asset value, are at a 28% discount. Around the world there are ordinary companies – Jardine Matheson, Ayala Corp, SK Inc, all of which are held in one or other of our portfolios, the two latter covered in other newsletters this month – at enormous discounts to the value of their (often market quoted) assets.

The ordinary has become extraordinary in valuation. The extraordinary has become extraordinary, in the opposite direction. In the last few days we have seen an initial public offering of a company with a starting market cap of \$15bn whose only business and assets are the ownership of 15 thousand acres of land with plans to build an AI data centre on it. One million dollars per acre is a rich price for bare industrial development land. However enthusiastic one might be about either Bitcoin or AI, the excesses surrounding each of these should give pause for thought. We have all seen this film before. In December 1999 one of us talked to a global media mogul. He said he had only to announce the acquisition of a tiny fledgling internet company for his own company’s share price to jump 10%. Herbert Stein, President Nixon’s economic adviser, said that, if something is unsustainable, it does not last. Such anomalies as these will not last.

We have heard, among people we respect, some mutterings about the possibility of a really sharp fall in markets – dare one whisper it, a c***h. Who knows? One of the things which some suggest is critical is the US Government’s shutdown. Members of the Senate and House of Representatives continue to be paid because they are classed as essential workers inside the bracket reserved for mandatory spending rather than discretionary spending; postal workers and the military continue to work but their pay is deferred. Nice to see those who govern have their priorities right. A shutdown could be a catalyst for market crisis but probably not. There is no danger of the US defaulting on its debt because the debt ceiling was raised in July to \$45 trillion (equivalent to c.\$135,000 per US citizen). But it might be the sheer weight of valuations in the areas of excess which causes a reversal.

Enough of this disgruntled-of-Tunbridge-Wells air of negativism. We are positive. As we have discussed in earlier newsletters this year, we saw the events of the first few months of 2025 as pivotal in markets – a point when for the first time in years investors who have concentrated their assets increasingly in the market which has performed best, the US, began to wonder if they should look around the world; and the point when investors began to look more inquiringly at companies with basically sound businesses whose share prices had languished because they did not fly towards the sun. We feel the market revival of such companies has a long way to go, and we intend to exist for our investors to benefit from it.

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