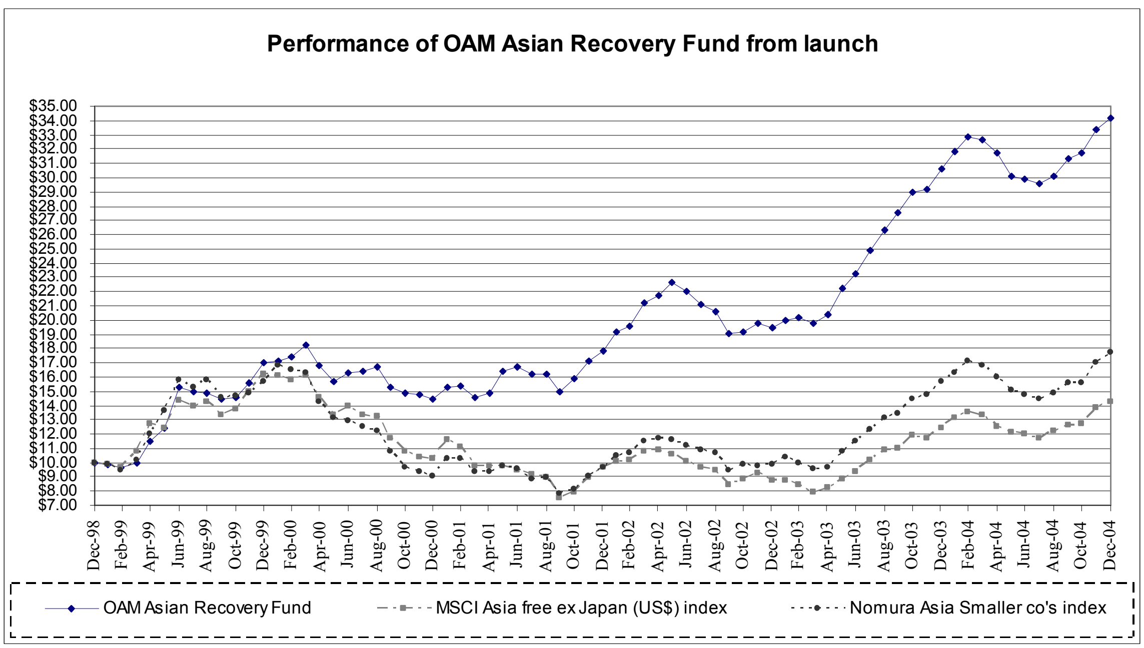
15th January, 2005 **OAM Asian Recovery Fund**

Dear fellow shareholder,

Last year, OAM Asian Recovery Fund's NAV increased by 11.7%. By comparison, the Fund's principal benchmark, the MSCI Asia free ex Japan index, increased by 14.4%. This is the first year in the Fund's six year life in which it has underperformed its benchmark. In October, after visiting Asia, I wrote a newsletter outlining my bullish outlook for our clients' Asian investments. Little did I know that after 10 months of making virtually no progress, Asian markets would immediately take off after my visit. In the last two months of 2004, the index rose 12%. In the first 10 months of last year, OAM Asian Recovery Fund's NAV performance was ahead of the index. In the last two months of the year, the Fund's NAV rose by 8% versus a 12% increase in the index. This was to a large degree a result of the drag of un-invested cash inflows during the last two months of the year - over US$7.5 million in November alone.



Since inception, the Fund's NAV has increased by 234.2% versus 42.3% for the MSCI Asia free ex Japan index. Earlier this year, the Fund received an award from Standard & Poor's Fund Services for being the top performing offshore fund over 5 years that invests in Asia ex Japan equities. This accolade brought more attention to the Fund that we are accustomed to receiving. As a firm, Overseas Asset Management prefers to fly under the radar screen, remaining relatively unknown and undetected in our movements. This increased attention also attracted larger subscriptions than we are accustomed to handling. For the first time in the Fund's history, we had difficulty investing all the Fund's cash. The Fund's directors therefore resolved that until further notice, we will only accept subscriptions to OAM Asian Recovery Fund from existing clients of Overseas Asset Management. This should protect our clients against dilution of future returns resulting from the drag of a large un-invested cash component.

The Fund's compound annual return over the past six years has been 22.8% per annum. By comparison, the benchmark index has returned 6.1% per annum. A margin of outperformance of 16.7 percentage points per annum over six years is highly unusual in investment management. As the saying goes, past performance is no guarantee of future performance. Or as I put it to the trustees of a pension plan recently, there is no guarantee that I will keep guessing right in the future. A much slimmer margin of outperformance should be expected in future years. Nevertheless, I believe that the Fund will continue to outperform its benchmark over the next few years.

Two factors are conspiring against a recurrence of the huge historic outperformance by the Fund. The first is that several of the boutique fund managers that we use in Asia are managing far larger pools of money than they were managing when we first placed money with them. I question whether these fund mangers will be able to maintain their superior track records managing much larger pools of money. I suspect that the answer is that some will and some won't, though I find it impossible to determine who will be capable of transforming their style to the next level. The second factor is that a lot of smart "hedge fund type" money has flooded into Asia in the past two years, seeking to exploit market inefficiencies. The stunningly cheap Asian equities of six years ago no longer pervade, with two possible exceptions: Korean consumer goods companies and sub-US$100 million market capitalisation stocks, principally in Indonesia, Thailand and to a lesser extent in Hong Kong. This year, we have invested more money in these two segments that we perceive as being massively undervalued.

When we launched OAM Asian Recovery Fund at a price of US$10.00 per share six years ago, I told clients that my personal objective was to get the NAV to US$50.00 per share within 10 years. It is very risky to make such statements, so to protect my fellow directors, I made it clear that this was a personal objective. I believe that this goal will be easily attained, so at the risk of making a fool of myself, I will go out on a more challenging limb and state that my personal objective is to get the NAV to $100.00 within the next 10 years, i.e. within 16 years of launch. If attained in exactly 10 years, this would equate to a 11.3% compound annual return over the next 10 years. I believe that such a return will be very difficult to achieve in the next 10 years anywhere. For those clients who are lawyers, please note that this is merely a goal. It is not a forecast, expectation or a promise. The future is unknown or unknowable and one or more financial hurricanes or tsunamis in coming years could knock this goal off track.

How do I come up with such a high return objective? I see three sources of return for shareholders. The first is earnings growth of the portfolio holdings. On a look-through basis, well over half the Fund's assets are invested in companies serving Asian consumers, whether they be retailers, branded food and beverage companies, consumer finance companies, or pharmaceutical companies. Given Asian demographics, their work ethic, their focus on education, the catch-up mentality of Asian politicians and voters, and the lack of social welfare states and the resulting low levels of taxation, it seems likely that Asia ex Japan will have one of the highest economic growth rates in the world. Within the Asian economies, it also seems likely that consumer spending will command a growing share of the economy. Most Asian countries have savings rates of 25-40%. Contrast this with the U.S. where the savings rate is currently 0.3% and consumption accounts for 70% of the economy. As Asians become wealthier and more confident about their future, they will spend more than the current 60-75% of their income. Demographics will also help as most Asian countries have a demographic mix where the population of those in their prime spending years is growing rapidly. This should translate into above average corporate profits growth in most consumer sectors. This honey pot will almost certainly attract a lot of new competition, particularly from multinationals. However, it is reassuring that the barriers to entry in consumer markets are much higher than in industries such as car manufacturing and cement. It takes years to establish a brand, and money alone will not buy market share. It is also reassuring to see the likes of Wal-Mart struggling against local competition in some Asian markets. Asian tastes are very specific to countries or the region, a factor that US-centric multinationals in particular have failed to appreciate.

The second source of return is likely to come from cheap valuations. On a look-through basis, the dividend yield on OAM Asian Recovery Fund's holdings is almost 4%. It is important to note that this dividend yield is subject only to about 10% withholding tax on average. Contrast this to the U.S. where the dividend yield on the S&P 500 index is less than 2% and this is subject to 30% withholding tax. The average P/E of OAM Asian Recovery Fund's holdings is about 9.5 times this year's estimated earnings. That is cheap by historic standards and relative to most other equity markets in the world. Although the Fund's NAV has more than tripled in the past six years, most of this performance is due to superior stock/manager selection rather than due to the market return. A longer perspective is more useful in determining where we are in Asia's stock market recovery following the Asian financial crisis of 1997-8. The 10 year return of the MSCI Asia free ex Japan index is still negative – the 10 year return is -30%.

There was a fascinating article in the September/October issue of the Financial Analysts Journal which showed a scatter diagram on which the preceding 10 year return of the S&P 500 index was plotted on the x axis and the subsequent ten year return was plotted on the y axis. The scatter diagram showed the results for the period 1944-2003. There was a clear negative correlation between past returns and subsequent returns. In other words, a series of high returns was invariably followed by a series of weak returns and vice versa. This confirms in empirical form what most analysts already knew intuitively. Reversion to the mean is a very powerful force in investment markets. Based on the scatter chart for the U.S., whenever the preceding 10 year return was around zero, the subsequent 10 year return averaged 14% per annum. There is no guarantee that this experience in the U.S. can be translated to Asia's current situation. Nevertheless, I think it provides a useful guide.

The third source of likely return is currency revaluation. In the past 3 years, the Euro has appreciated by nearly 50% against the U.S. Dollar, Sterling has appreciated by 30%, the Canadian Dollar by 30% and the Japanese Yen by 25%. In spite of this large currency realignment, the U.S. continues to run a current account deficit of around US$500 billion annually. Clearly, these currency realignments have not addressed the serious trade imbalances that the U.S. continues to record. This is because the real misalignment is with the Asia ex Japan currencies which for the most part remain hyper-competitive. The most recent Big Mac survey showed that the cost of a Big Mac in the U.S. is $3.00 while the US$ equivalent price is $1.26 in China, $1.33 in Malaysia, $1.52 in Thailand, $1.57 in Indonesia, $1.54 in Hong Kong, $2.19 in Singapore, $2.36 in Korea, and $2.32 in Taiwan. In the past, the Big Mac index has proved a useful guide to the purchasing power parity of most of the world's major currencies. Recently, the Korean Won (9%), Singapore Dollar (2%), New Taiwan Dollar (6%), and Thai Baht (5%) have appreciated against the U.S. Dollar (appreciation against the U.S. Dollar during the past 3 months shown in brackets). However, as the Big Mac survey results show, the biggest misalignments are against some of the currencies with pegged exchange rates, namely the Chinese Renmimbi and the Malaysian Ringgit. I think that investment in these pegged currencies is a one-way bet – a rare offering in the investment world – and therefore a bet worth taking. The only question is one of timing, but in a world of ultra-low interest rates, the cost of waiting is low.

Currently, speculation focuses on the prospects for a Renmimbi revaluation. However, I think that China will be reluctant to revalue without the other Asia ex Japan countries having a corresponding revaluation. During the Asian financial crisis, the Renmimbi peg held while most other Asian currencies saw their currencies devalued, by 50% or more at the trough in the case of Thailand and Indonesia. China will be reluctant to see these competitors gain another competitive advantage. I therefore expect a concerted revaluation of most Asia ex Japan currencies rather than an isolated revaluation of the Renmimbi. If the eventual revaluation is large, as I expect, it will be disruptive to Asia's exporters. This is another reason why we favour companies serving the Asian consumer.

This coming year should be a good year for OAM Asian Recovery Fund. I see two principal risks that could spoil the party. The first is massive overcapacity in many industries in China which will depress profit margins of many Chinese companies and Asian manufacturers in general. The second risk is that the U.S. economy and stock market slump. Frankly, I am amazed that the U.S. economy and stock market have been able to levitate on borrowed money this long. There is a good chance that any U.S. problems could have negative repercussions in Asia.

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