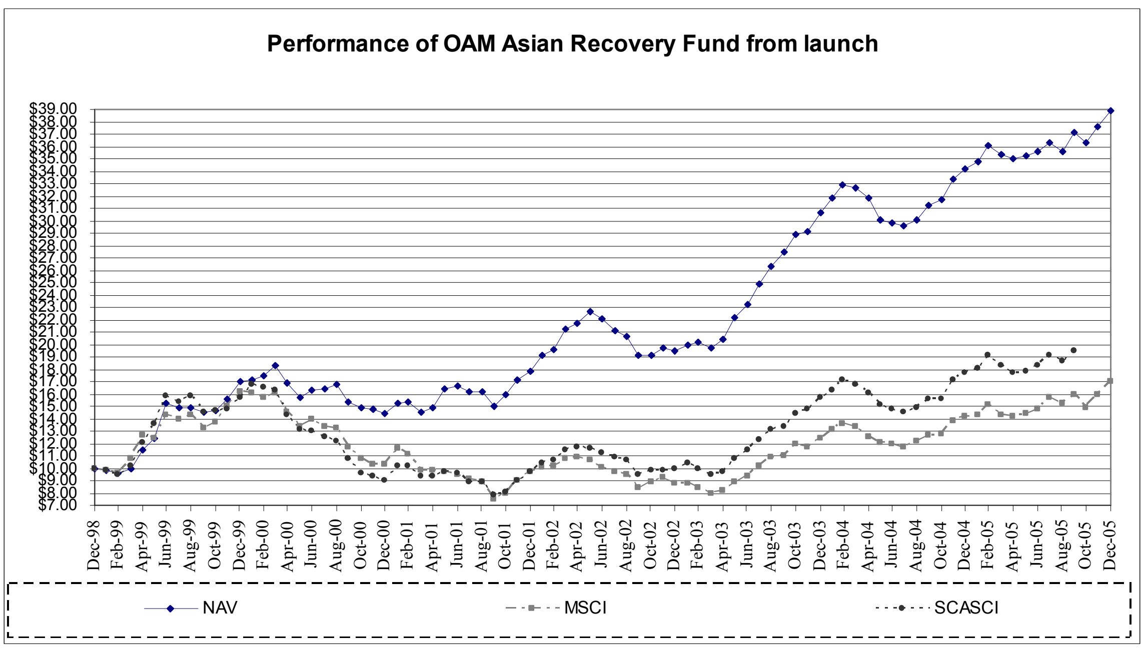
3rd January, 2006 **<u>OAM Asian Recovery Fund</u>**

Dear fellow shareholder,

Last year, OAM Asian Recovery Fund's NAV increased by 13.8%. By comparison, the Fund's principal benchmark, the MSCI Asia free ex Japan index, increased by 19.3%. From 31st December, 2004 to 30th September, 2005, the Fund remained closed to subscription by new clients. Initially this had the effect of causing existing clients to make further subscriptions to the Fund and during the first half of the year, cash climbed from 10% of net assets to more than 13% as money continued to flow into the Fund faster than we could sensibly invest net inflows. At the end of June, I visited Asia and returned with new investment ideas that were sitting on the backburner awaiting final due diligence. Those new ideas plus two Singapore-listed holding companies that were purchased later in the year at more than 45% discounts to net asset value have reduced cash to around US$1.5 million or 2% of net assets at year end.



Since inception, the Fund's NAV has increased by 289.4% versus 69.7% for the MSCI Asia free ex Japan index. The Fund's compound annual return over the past seven years has been 21.4% per annum. By comparison, the benchmark index has returned 7.8% per annum. Going forward, I think that a return similar to last year's return of 13.8% is a more realistic objective than the 21.4% compound rate of return that has been achieved over the past seven years since the Fund's inception. If the Fund achieves a return of

12.5% per annum going forward, the NAV would reach $100.00 per share in 8 years. Such is the power of compound interest!

During the past year, clients as well as various people interested in investing have said to me that surely the reason to invest in Asian equities is to access China's growth. Much to their surprise, I tell them that in the short to medium term, I am more negative on investing in China than virtually anywhere else in Asia. To quote an investment manager in Asia for whom I have a great deal of respect: "China combines a dysfunctional banking system and a profitability-agnostic business community." In China, all the banks are state-owned and many loans are made without any regard to whether they might be repaid. This results in terrible misallocation of capital to projects which have no likelihood of earning a return on capital, far less making a payback. In many capital intensive industries such as steel and cement where the only barrier to entry is access to capital, there is huge overcapacity. With much higher oil prices, increasing interest rates, and wage inflation increasing, companies operating in industries that are plagued by overcapacity have found it impossible to pass on their higher costs to customers through price increases. Chinese-listed companies also have possibly the worst track record in Asia for corporate governance. As I have told a few people: if you want to cure yourself of your obsession to get rich by investing in China, try being a minority shareholder in a Chinese company.

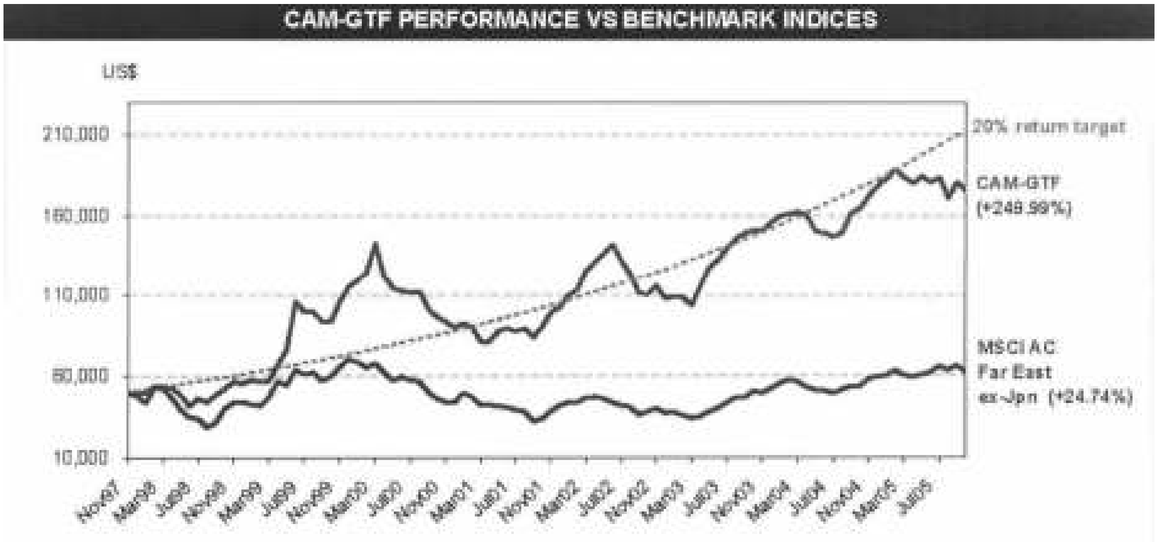
Within China, there are a few areas where we feel comfortable investing. One is in companies operating in China, but primarily with Hong Kong or Asian management not based in China. We tend to favour businesses serving the rapidly growing Chinese consumer class who benefit rather than suffer from rising wage inflation. Our biggest exposure to this area is to funds managed by Value Partners Ltd. who I have known for more than 10 years. Cheah Cheng Hye who founded and still runs Value Partners Ltd. is known by many as the "Warren Buffett of Asia", justifiably so in my view. Since inception 12 ½ years ago, Value Partners Classic Fund, in which the Fund has the bulk of its money that is managed by Value Partners, has provided its shareholders with a compound return of 19.3% per annum compared to a 6.7% compound annual return over the same period for the Hang Seng index. Reassuringly, the weighted average P/E of Value Partners Classic Fund is currently 10.5 and the dividend yield is 3.7% which is not subject to withholding tax. These are attractive valuations and we know from experience that Value Partners has not invested in rubbish. At year end, 17% of the Fund's portfolio was invested in Value Partners Classic Fund and Value Partners China Greenchip Fund., a closed-end fund that currently trades at a 10% discount to NAV.

The other part of the Chinese market that we find attractive, and one where we invested money for the first time five months ago, is in non-performing loans that are being sold by China's asset management companies (AMC's) which are entities similar to the Resolution Trust Corporation (RTC) that operated in the US fifteen years ago. This could be an enormous area of opportunity in the next 5-10 years. We are in on the ground floor and have dipped our toes into the water by investing 4% of the Fund's assets in a limited partnership run by arguably the first dedicated investor in this market and the only one with a track record spanning a few years. Should it work as we anticipate, we will likely make a follow-on investment in this manager's next limited partnership.

More recently, India has come on to investors' radar screens and I increasingly field questions from clients who ask how much of the Fund is invested in India. The answer is "less than before." In 2004, we sold the Fund's holding in India Magnum Fund, prematurely as it turned out, thereby eliminating our only pure exposure to the Indian market other than a tiny residual investment in Taj Performance Fund. Historically we have had too little money invested in the Indian market. Currently, the only investment that our managers have in India is Arisaig Asia Fund which has 22% of its net assets invested in the Indian sub-continent. Unlike the other investment managers that we use, Arisaig has a dedicated Indian office with on-the-ground, in-house analytical coverage. Since we have 13% of the Fund's assets invested in Arisaig Asia Fund, this means that on a look-through basis, only 3% of the Fund's assets are now invested in India. Having admitted that it was a mistake to have had too little of the Fund's money invested in India in the past, I am now much more comfortable about the Fund have such a low weighting in India. During the past three years, the Indian stock market has tripled and it is now the most expensive market in Asia ex Japan, according to Bloomberg, selling at a P/E of 20 and a dividend yield of 1.3%.

So much for the areas that we dislike; now comes the interesting part – markets or niches that we like. As alluded to earlier, profit margins at many Asian companies with no pricing power are shrinking under pressure from rising interest rates, much higher oil prices, and rising wage inflation. The antithesis of oil-use intensive, heavily indebted companies that rely on comparative labour costs but have no customer loyalty are companies that serve the rapidly growing Asian consumer class with respected brands that translate into pricing power and a high return on equity. Combine this with cash-rich balance sheets (that benefit rather than suffer from rising interest rates) and you have the typical holding in OAM Asian Recovery Fund which accounts for substantially more than 50% of the Fund's net assets. Looking at aggregate figures for the Fund's holdings reinforces this point. Well over half of the holdings in the Arisaig funds have net cash on their balance sheets and the average return on equity (ROE) is 25%. We have 17% of the Fund's net assets invested in Arisaig Asia Fund and Arisaig Korea Fund. Both funds are closed to further subscriptions. Meanwhile, the average ROE of Overlook Investments Fund LP is 24% and the average debt/equity ratio of their holdings is 10%. The portfolio has normalized earnings per share growth of 14%. All this is available for a touch over 10 times 2006 estimated earnings and very close to a 5% dividend yield. Currently, 8% of the Fund's assets are invested in Overlook Investments Fund LP which only accepts limited subscriptions from existing clients.

Well over 80% of the holdings in CAM-GTF Ltd. have net cash on their balance sheet and the average ROE of these businesses are similar to Arisaig's and Overlook's holdings. The weighted average P/E of CAM-GTF's holdings (excluding cash) is about 9.8 times 2006 estimated earnings with weighted earnings growth of 20%. Recently, the family of Colin Lee, who manages CAM-GTF, increased the size of their account with his firm and they now account for 32% of CAM's assets under management. We like to see this alignment of interest between managers and their shareholders. Last year, CAM-GTF Ltd. closed their fund to subscription other than from existing shareholders. We also like to see managers control their growth in assets under management. CAM-GTF is the Fund's largest investment, accounted for 17% of NAV. Recently, its NAV performance has lagged their 20% compound growth target as the chart below shows, but CAM feels confident that the Fund can revert to this performance target in due course.



There are two Asian market niches that look particularly undervalued where we have been allocating cash in recent months or adding to existing investments. The first is the Taiwan technology and consumer sectors which have been de-rated considerably in the past 5 years and now sell at P/E's of around 10 and dividend yields of 5%. We have exposure to good Taiwanese companies selling at low P/E's through several of the funds in which we invest. However, more recently we invested about 3% of the Fund's assets in a pure play on Taiwan's technology sector by purchasing shares in a Singapore-listed holding company that invests in Taiwanese technology companies which is managed by one of the leading venture capital firms in Taiwan. Relative to the woes experienced by the technology sector globally, this holding company has performed well. We have so far bought nearly 2% of this holding company's shares at a 45% discount to net asset value. Nearly one third of the holding company's net assets are cash and trading investments so the downside risk of this investment seems low.

The other market niche that we find attractive is Asian smaller companies that are below the radar screens of most investors. In the past year, we have invested about 6.5% of the Fund's assets with two managers who invest in these under-researched companies. Both managers are CFA's (Chartered Financial Analysts) with 10-15 years experience investing in Asia ex Japan smaller companies. Importantly, their experience encompasses the Asian financial crisis. I have known one manager for about eight years and the other manager was recommended to me by one of Asia's best investment managers, Claire Barnes of Apollo Asia Fund (which is now closed to subscriptions in which the Fund has an investment). Both managers also have a substantial portion of their net worth invested in their funds. The other key attraction of both funds is that the managers have agreed to cap their assets under management at a level which will allow them to trade successfully in these less liquid securities.

In the case of the larger of our two investments in this area, the manager has agreed to close the fund to subscriptions once its assets reach US$50 million. The fund's assets are already close to US$40 million and OAM Asian Recovery Fund owns just over 10% of the fund. This fund typically invests in companies with a market capitalisation of US$50-100 million. The weighted average P/E of the portfolio is 5.6 times 2006 estimated earnings and the dividend yield of the portfolio is 5.8%, or 5.4% after-tax. The other fund was launched less than six months ago. That fund's typical holding has a market capitalisation of US$100-250 million. The manager tends to pay more attention to earnings growth and the portfolio's weighted average EPS growth is around 30%. The average P/E of the portfolio is around 6.5 times 2006 estimated earnings. With such compelling valuations, it is difficult to see how these funds should not perform strongly this coming year and beyond.

To conclude, I would like to drive the point home one last time that the main reason why someone should invest in Asia ex Japan equities is attractive valuations. The table below shows trailing P/E's and dividend yields of selected markets according to Bloomberg.

Market	Index	P/E	Dividend yield	Market	Index	P/E	Dividend yield
USA	S&P 500	18.5	1.8%	Japan	Nikkei 225	43.4	0.8%
USA	Nasdaq	36.1	0.6%	Hong Kong	Hang Seng	14.9	3.5%
Canada	S&P/TSX Comp	20.9	1.6%	Singapore	Straits Times	12.9	4.7%
Europe	DJ Eurostoxx 50	14.8	2.9%	India	BSE Sensex	20	1.3%
UK	FTSE 100	18.5	3.7%	Indonesia	Jakarta Comp	13.5	3.1%
France	CAC 40	14.8	2.5%	Malaysia	KLCI	14.3	4.6%
Germany	DAX	15.7	2.1%	South Korea	KOSPI	11.4	1.7%
Spain	IBEX	16.1	2.9%	Taiwan	TWSE	13.2	4.0%
Italy	S&P/MIB	14.2	3.9%	Thailand	SET	10	3.8%
Belgium	BEL20	12.4	3.3%				
Netherlands	AEX	17.5	3.5%				
Switzerland	SMI	18.4	1.6%				

This comparison fails to take into account the difference in withholding tax regimes around the world. In the US, withholding tax on dividends is 30%. In Europe, withholding tax rates on dividends are mainly about 25% with the exception of the UK where it is 10% and Italian savings shares on which dividends are taxed at 12.5%. Withholding tax rates across Asia ex Japan average about 10%, with some jurisdictions such as Hong Kong levying no withholding tax on dividends. This is yet another reason to favour investing in Asia ex Japan equities.

Desmond Kinch
Chairman