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OAM European Value Fund

24th January, 2017

Dear Fellow Shareholder,

European equity returns measured in US Dollars underperformed US equities in 6 of the past 7 years. Since the end of 2009, the S&P 500 index more than doubled while the MSCI Europe (US$) index is no higher. The MSCI Europe (US$) index fell 2.6% last year while the Fund's NAV per share increased 10.3%. The euro fell by 3.2% and Sterling by 16.3% against the US Dollar last year which made it very difficult to make headway in US Dollars. Therefore, we are pleased with last year's performance. During the 14 years since inception, the Fund's NAV compounded at 10.4% per annum, while the MSCI Europe (US$) index rose by 3.8% per annum. The benchmark figures used for comparison do not include dividends. We estimate that if dividends, net of withholding taxes, are included in the benchmark returns, the benchmark returns would increase by nearly 3 percentage points.

When the Fund was launched, our objective was to provide shareholders with risk-adjusted returns which exceed the Fund's benchmark index, being the MSCI Europe Index (US$), and in absolute terms, to provide shareholders with returns over the first five years of the Fund's life at least three times higher than the yield on 5-year United States Treasury bonds, i.e. at least 9.6% per annum for 5 years. During those first five years, the Fund's NAV per share more than tripled and the Fund produced a compound annual return of 27% per annum. During that period, we had the wind at our back in every respect. The euro appreciated 40% from 1.05 to 1.45. A value investment strategy hugely outperformed a growth strategy during that period. P/E multiples expanded.

Since then, all three of these factors, each of which I discuss below, have gone into reverse, creating a massive headwind for returns. At the start of 2013, we updated the Fund's prospectus and set a new absolute return objective which was to provide shareholders with returns over the next ten years at least five times higher than the yield on 10-year United States Treasury bonds, i.e. at least 8.75% per annum for 10 years. This implies a target NAV of at least $77.50 in six years. That target is looking very ambitious, but if currency moves in our favour by around 5% per annum, it remains a realistic target. Although the Fund's NAV has only increased by 4.4% per annum in US Dollars since we set this target 4 years ago, it is worth noting that the return in euros is 10.5% per annum. This illustrates the importance of currency in determining returns.

Currency

Our policy on hedging currency risk is simple: we hedge currency risk if the currency to which the Fund is exposed looks significantly overvalued on a fundamental basis. The best approximation that we have of fair value for currencies is purchasing power parity (PPP). Both the euro and sterling currently look undervalued against the US Dollar. For the euro, PPP is currently 1.37 according to the Big Mac survey and 1.30 based on OECD estimates. Other estimates that I have seen for PPP of the euro are as low as 1.20. Conservatively, we peg PPP for the euro at 1.25 which we dub fair value. For sterling, PPP is currently 1.61 according to the Big Mac survey and 1.44 based on OECD estimates. Conservatively, we peg PPP for sterling at 1.50 which we dub fair value. For major currencies like sterling and the euro, their exchange rate versus the dollar tends to fluctuate like a pendulum with a tendency to return to fair value. That pull back to fair value tends to be stronger the further away from fair value a currency moves. Current levels for the euro and sterling are more than 15% away from fair value. As the chart below shows, sterling has spent very little time at these levels in the past 50 years.

During the past 5 years, the US Dollar index strengthened by more than 5% per annum. The mirror image is that currency detracted 5% per annum from US Dollar returns of non-US equities over the past 5 years, though the exact number varies from currency to currency. Bloomberg recently published a study in which it calculated that less than 15% of the time during the past 50 years, the US Dollar index strengthened by more than 4% per annum. On these occasions, over the next 5 years, the US Dollar index subsequently weakened by more than 6% per annum on average. If this happens again, we will have quite a powerful tailwind for the Fund's returns in US Dollar terms. The following chart which accompanied the Bloomberg study shows trailing annualized 5-year returns for the US Dollar index and subsequent 5-year annualized returns for the index. It illustrates the finding that 5-year periods of strong returns for the US Dollar are almost always followed by 5 years of negative returns for the US Dollar index, and visa versa.

Value vs Growth

Numerous empirical studies over the years show that value stocks characterised by low Price/Book Value, low P/E, or low Price/Cash Flow historically outperformed growth stocks with the opposite characteristics over the long-term by a substantial margin. In light of this empirical evidence, many have pondered why more people do not practice value investing. The first answer is that it is difficult to do psychologically. It means going against the grain. Most people feel more comfortable following the crowd. The other answer is that growth stocks sometimes outperform value stocks for uncomfortably long periods of time. We have just endured one of those uncomfortably long spells which lasted 9 ½ years from late-2006 to mid-2016. Almost ten years of underperformance of value stocks is enough to test the patience of even the most inveterate value investor. In May, I attended the annual London Value Investor conference. The audience was asked to put up their hand to indicate the average P/E of their fund's holdings within certain ranges. I was shocked at how many indicated that the average P/E of their portfolio is over 18. Most of these attendees are almost certainly no longer value investors even though they were attending a conference dedicated to value investing.

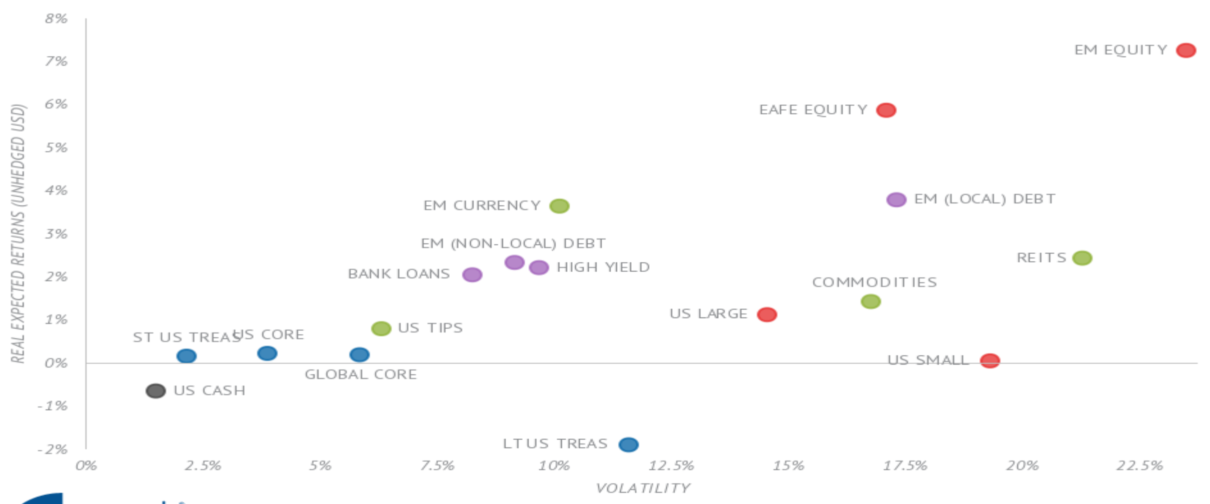
This spell began in Europe just before the start of the Global Financial Crisis – the stock market tends to be forward-looking – and ended in July. The chart above shows the performance of the MSCI Europe Value Fund index versus the MSCI Europe Growth index. It shows the period from late-2006 to mid-2006 when European value stocks underperformed European growth stocks. The end of the long spell of underperformance by value stocks is interesting. It coincided with the short period of negative European government bond yields, something that I thought we would never see. From late June to early October, 10-year German government bonds had a negative yield. This government bond bubble which reached its zenith in Q3 2016 may prove to be one of the greatest financial bubbles of our lifetime. Ultra-low interest rates resulted in "franchise" companies and technology disruptors which are typically valued as growth stocks getting huge re-ratings, to the point where it became impossible to justify many of these companies' valuations. Companies with predictable earnings were treated as bond proxies, while the effect of discounting expected future earnings at a lower discount rate made companies with expectations of rapidly growing earnings more valuable. In essence, the bond market bubble infected growth stock valuations, while value stocks were essentially left for dead. We think the cycle has turned and this headwind is now firmly behind us.

Valuation

Research Affiliates, founded by Rob Arnott in 2002, is a leading asset allocation firm with a strong track record. Over $160 billion in assets are managed worldwide using investment strategies developed by Research Affiliates. On their web site, they share some of their research data. The primary basis for their expected future returns for equity markets around the world is the cyclically-adjusted P/E (CAPE). There is a strong historic correlation between CAPE and equity market returns over the next 10 years. Whereas CAPE is high and expected future returns are low in the US, CAPE is relatively low and expected returns are relatively high for equities in Europe, Australia and the Far East (EAFE) and emerging markets (EM) as illustrated by the chart below of risk (volatility) versus expected real returns.

GLOBAL ASSET CLASSES: 10-YEAR EXPECTED RETURNS

Note: All returns are geometric.

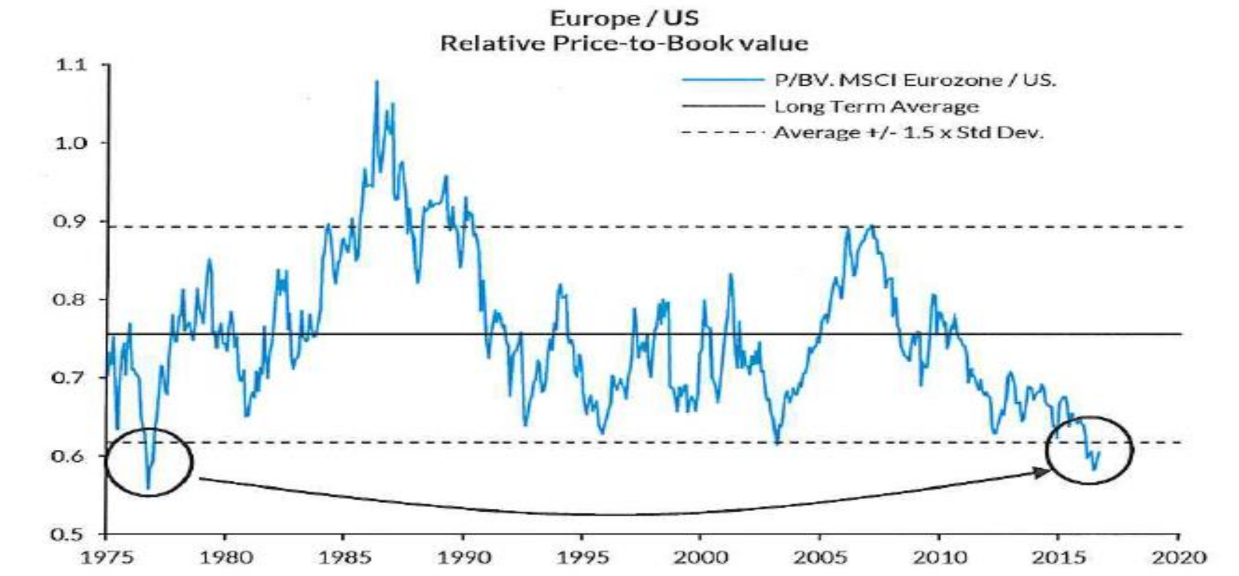


As of 10/31/2016. Source: These expected returns are calculated by Research Affiliates LLC using data provided by MSCI Inc., Bloomberg, and Barclays. Volatility is measured as standard deviation. These forecasts are forward-looking statements based upon the reasonable beliefs of RA and are not a guarantee of future performance. This content is not investment or tax advice or an offer, sale or any solicitation of any offer to buy any security, derivative or any other financial instrument. Any use of the above content is subject to and conditioned upon the user's agreement with all important disclosures, disclaimers and provisions found at www.researchaffiliates.com/en_us/about-us/legal.html. In the event the above content is provided or modified by a third-party, Research Affiliates LLC fully disclaims any responsibility or liability for such content.

The cheapest emerging markets are Russia and Eastern Europe and we have a bit of exposure to these markets in the Fund through two London-listed Russian GDRs and a London-listed owner of 15 million square feet of modern logistics warehouses around Moscow's and St. Petersburg's ring roads. We also recently bought shares in an Austrian-listed insurance company that is a market leader in several Eastern European markets which earns two-thirds of its profits in Eastern Europe.

As the chart below illustrates, we think there is a good chance that the underperformance of European equities versus US equities may be reaching an end. European equities are as cheap versus US equities as they have been in a very long time.

Chart 35 : The Relative Price-to-Book of Europe vs USA



Source: Datastream, Kepler Cheuvreux

__Listed private equity funds__

Currently, the Fund has over $42 million or 18% of the Fund's net assets invested in six listed private equity investments: Ashmore Global Opportunities, Altamir, Spice Private Equity, NB Private Equity, Pantheon International, and Better Capital 2009. During the year, we received distributions (at net asset value) of $4 million from Ashmore Global and Better Capital, dividends of $0.5 million from NBPE (free of withholding tax) and Altamir (subject to French withholding tax), and added $9 million to Ashmore Global, Altamir, Better Capital 2009 Cell and Pantheon. The table below shows the Fund's current holdings in this sector.

Fund	Current value of investment	% of fund Owned	Share Price	NAV per Share	Discount to NAV
Ashmore Global	$12.6 million	28.0%	$3.72	$5.04	-26%
Spice PE	$7.2 million	5.2%	$26.00	$41.76	-38%
Altamir	$6.7 million	1.4%	€12.77	€18.94	-33%
NBPE	$6.3 million	1.1%	$12.05	$15.04	-20%
Pantheon	$6.5 million	0.5%	£17.33	£20.88	-17%
Better Capital 2009 Cell	$2.9 million	1.1%	£1.03	£1.23	-16%

Ashmore Global Opportunities is our largest investment in the sector. It remains a very high conviction investment. The fund was launched in late 2007, close to the peak of the market, and Ashmore, a well-respected emerging markets fund manager, raised over $700 million for the fund. We started buying shares in the fund after its share price halved and the shares traded at a deep discount to NAV. In 2012, I wrote to the Board and pointed out that the performance of the fund must be an embarrassment to Ashmore and added that the most sensible thing to do would be to put the fund into a managed wind-down. In December that year, the Board announced that they would wind down the fund on an orderly basis and return capital to shareholders. In spite of this wind-down strategy and a substantial return of capital to shareholders, the fund's shares still trade at a large discount to NAV. We think the fund can return close to the current NAV to shareholders so this large discount makes no sense. If they can return the remaining capital to shareholders over the next 18 months or so, we estimate that the internal rate of return (IRR) on our remaining investment in the fund, excluding our realised gain to date, would be around 30% per annum.

GP Investments which is managed and partly owned by GP Advisors, one of Brazil's leading private equity firms, announced in May that it would acquire the shares in Spice Private Equity which were held by Fortress and Newbury for US$35.25 per share. This price represented a 15% discount to NAV, but a premium of more than 30% to the current market price. This increased GP's ownership of Spice to 58.5%. I was outraged that GP did not make the same offer to other minority shareholders and wrote to the Board setting out my objections. I also met with two of the Spice directors in London. GP relied on a technicality under Swiss Law whereby they would not be required to make a similar offer to other minority shareholders, even though they have voting control of the company, simply because they have an exemption in their Articles that allows them to bypass the typical takeover provisions that prevail globally and which are considered best practice in terms of corporate governance around the world. The Spice Board has requested its advisors to analyse implementing a share repurchase programme for up to 7.2% of the Company's shares. I suggested to the two directors who I met in London that they make a tender offer for 7.2% of shares at $35.25/share, the same price that was paid to Fortress and Newbury, as a way of appeasing aggrieved minority shareholders.

Altamir is a French-listed private equity fund. It is managed by Apax France which has a strong track record and invests in Apax France and Apax Partners funds, and occasionally in co-investment opportunities offered by Apax France and Apax Partners. The fund's historic NAV has been strong and exceeds the Morningstar listed private equity index over 3, 5 and 10 years. Given these circumstances, it would be reasonable to expect Altamir's shares to trade at a relatively narrow discount to NAV. This is not the case for one important reason. The Board has done nothing to tackle Altamir's persistently wide discount to NAV. The situation is aggravated by the fund paying a relatively high dividend (equivalent to a nearly 5% yield at the current share price) which is subject to 30% withholding tax for most institutional investors outside France. We, and many others, are therefore seeing 1.5% of the value of our investment destroyed every year. We continue to urge Altamir to return capital to shareholders in a more tax efficient manner by repurchasing shares, rather than pay a dividend, which would have the added benefits of being accretive to its NAV per share and increasing demand for its shares which ought to narrow the deep discount to NAV.

NB Private Equity is managed by Neuberger Berman. NBPE makes co-investments in both equity and subordinated debt of private equity-managed firms. To a lesser extent, it invests in private equity funds, a legacy of its past. Roughly a quarter of its net assets are invested in subordinated debt which funds a semi-annual dividend which equates to about a 4% yield at the current share price. Unlike in the case of Altamir, since NBPE is Guernsey-incorporated, there is no withholding tax leakage so this is an efficient way of returning money to shareholders. NBPE's discount to NAV has narrowed, but we think it ought to narrow further given its hybrid nature, relatively low expense ratio compared to its peers, its good NAV performance track record, and its proactive approach to buying back shares when the discount to NAV at which its shares trades widens.

Pantheon International is, in our view, the highest quality listed fund of private equity funds in the universe. Over the past 20 years, it has delivered a compound annual return to investors of 12%. There is no reason why its shares should trade at such a high discount to NAV. Pantheon continues to buy back shares at a discount to NAV which is accretive to its NAV per share. It is also an active buyer in the private equity secondaries market where we think some attractive opportunities lie.

Better Capital 2009 Cell (BCAP) is unusual in that it returns capital to shareholders as its investments are sold. Hence, there is a clear catalyst for the discount to disappear. More than 80% of BCAP's NAV is accounted for by one investment, Gardner Aerospace, which is a supplier to Airbus. BCAP recently announced that it has agreed to sell Gardner to a Chinese group. The sale is subject to certain legal and regulatory approvals. If the transaction closes, we expect to receive a distribution of around the current share price in the first half of this year.

Financials

Currently, the Fund has $41 million or 18% of the Fund's net assets invested in six financials: Standard Chartered Bank, Sberbank, Close Brothers, NN Group, Vienna Insurance Group, and Hiscox. Financials were the biggest dogs in the European market last year, largely due to the effect of low interest rates, large banking fines, and negative sentiment particularly around Deutsche Bank and the Italian banks. Valuations became even more compelling and we added 50% to our exposure to financials, adding one new holding, Vienna Insurance Group (VIG). We think that we own a portfolio of high quality companies with excellent management and strong balance sheets. We think the leader of each of these businesses is first-class, though Elizabeth Stadler, who is the new CEO of VIG, has yet to prove her leadership qualities. Each of the banks has a high capital adequacy ratio and each of the insurers has a high Solvency ratio. We think they are all survivors with decent economic moats.

Company	**Current value of investment**	**Price/Book**	**2016 P/E**	**Div yield**	**ROE**
Standard Chartered	$7.6 million	0.6	n/m	-	n/m
Sberbank	$8.1 million	1.4	8	3%	18%
Close Brothers	$6.4 million	1.9	11	4%	18%
NN Group	$9.5 million	0.45	9.5	4.5%	5%
Vienna Insurance	$6.1 million	0.6	10	4%	6%
Hiscox	$3.3 million	1.7	11	3%	15%

As the table above shows, these companies are all trading at attractive valuations. Standard Chartered Bank is a London-listed bank, but it generates more than half its earnings in Asia and nearly 90% of its earnings in Asia, Africa and the Middle East. Bill Winters who was the #2 to Jamie Dimon at JPMorgan was appointed CEO in June 2015. We think he is a superb banker and brings with him the highest ethical standards. To get some measure of the man, I recommend reading Gillian Tett's excellent book "Fool's Gold". Standard

Chartered is an emerging markets bank. They over-expanded in Asia after the Global Financial Crisis (GFC) under the previous CEO and bad loans came back to haunt them. We share the bank's view that loan loss provisions have peaked. This year, the bank should make a small profit. Based on their guidance, we think it will take 5 years to get the bank back to generating a 10% return on equity (ROE) – bear in mind that this bank typically generated a return on equity averaging about 15% through the cycle in the years prior to the GFC and 10-15% until 2012. If the bank generates a 10% ROE in 2021, we think it is reasonable to assume that its shares will trade at book value. If that happens, we estimate that the internal rate of return (IRR) on our investment in Standard Chartered over the next 5 years, including dividends, should be almost 20% per annum. Beyond that, we expect the bank's shares to return to their past pattern of trading at a decent premium to book value.

We have written about Sberbank a number of times in the past. There is little to add to what I said in past letters. Sberbank continues to gain market share as hundreds of Russian banks were closed during the recent recession. We think the shares are far too cheap on a P/E of 8 for Russia's largest bank that is 7 times the size of its next largest competitor. Sberbank is generating an 18% ROE, close to their long-term average. Few banks in the world could hope to achieve a ROE close to this level. We favour banks in emerging markets as they have ample scope to roll out banking services to a larger portion of the population which will allow them to grow their earnings. They are also not affected by financial repression, a hostile regulatory regime, zero interest rates, and a relatively flat yield curve that haunt banks in the developed world.

Close Brothers is a longstanding holding that I have also written about in the past. It has three divisions, but niche banking generates around 85% of its profits. Close typically earns an 8% interest rate spread and has been growing its loan book by about 10% a year. Most banks could only dream of achieving those numbers. This business model has resulted in shareholders generating a compound annual return of 14% per annum in sterling over the past 25 years. Close Brothers will see its EPS growth held back this year as its effective tax rate rises from 18.5% to 26% as the effect of the last UK Chancellor's bank tax surcharge kicks in. This is one of the effects of financial repression on Western banks. What's worse is that the surcharge penalises the most profitable UK banks proportionally more than less profitable banks. Hopefully the new Chancellor will repeal the surcharge.

NN Group, previously known as Nationale Nederlanden, was part of ING Group. As part of the terms of its government bail-out, ING was forced to sell NN Group which it did as an IPO. In that sense, it was more like a spin-off. NN focuses on life insurance in developed markets - it has a leading position in the Netherlands and a strong presence in several European countries and Japan. NN operates in highly competitive, low growth developed markets but compensates for this by keeping costs low, generating free cash flow, and returning free cash flow to shareholders. NN reached its cost cutting targets, set at the time of its IPO, a year ahead of schedule and has launched a new cost cutting program. NN recently announced an all-cash offer for Delta Lloyd, one of its major competitors. We are confident in NN's capital allocation mind-set as demonstrated by their refusal to overpay for the purchase. This acquisition is expected to lower NN's unit costs and generate even more excess capital which will likely be returned to shareholders. NN's shares trade at less than 10 times this year's estimated earnings. Since all those earnings are free cash flow and that free cash flow is being returned to shareholders through dividends and share buybacks, we are getting a 10% free cash flow yield while we wait for a revaluation of the shares.

VIG is one of the leading insurance groups in Austria and Central and Eastern Europe (CEE), generating about two-thirds of their earnings in CEE. Insurance penetration is very low in the CEE markets so VIG has good opportunities for growth. VIG's share price to book value is currently 0.6, compared to an average of 1 since the Global Financial Crisis and about 2.5 before the Crisis. While its profitability is likely to be lower than historic levels with interest rates close to record lows, we think that when interest rates climb and the yield curve steepens, VIG's profitability should improve and its valuation multiples should follow suit.

Hiscox is a bit like Close Brothers. It is a highly profitable niche player. It typically operates with a combined ratio of 85% and generates a 15% ROE. Few insurers can match these vital statistics. Over the past 20 years, Hiscox shareholders generated a compound annual return of 15% per annum in sterling or 13% per annum in US Dollars.

Shipping

According to a recent report in The Economist, an earnings index compiled by Clarkson's covering the main types of vessel – bulk carriers, container ships, tankers and gas transporters – reached a 25-year low in mid-August. The index was 80% below its peak. They added that new ship orders are the lowest in 30 years. These indicators, along with the subsequent bankruptcy of Hanjin Shipping, suggest that the shipping industry may have reached a multi-decade trough. While we don't like the shipping industry, we think that there is good money to be made investing in such a highly cyclical sector … as long as we get our timing right.

Currently, the Fund has $20 million or 9% of the Fund's net assets are invested in the shipping sector. Our two biggest holdings are complicated conglomerates that are difficult to analyse and value. We look at them on a sum-of-the-parts basis.

Wilh. Wilhelmsen Holding ASA (WWH) is our largest investment in the sector. Our nearly 1% stake in the company is worth $8 million. It is a Norwegian family-controlled global provider of shipping and logistics solutions and maritime services. 30% of WWH's NAV is made up of a 73% interest in Wilh. Wilhelmsen ASA (WWASA); less than 20% of NAV by a 12% interest in Hyundai Glovis listed in Korea, which is held through a new listed mono-holding company called Treasure; and more than 40% of NAV by a 100% interest in Wilhelmsen Maritime Services (WMS). The remainder of WWH's NAV is mostly attributable to a 6% stake in Qube, listed in Australia, and various unlisted investments. WWH's listed holdings look undervalued. WWASA is a shipping and logistics company that transports cars and high & heavy vehicles and is listed on the Oslo Stock Exchange. In May, WWASA and their longstanding partner, Wallenius Shipping, decided to merge and fully integrate the two companies. The merger is expected to eliminate duplicate costs. EUKOR, a subsidiary of WWASA, has a shipping contract with Hyundai Kia that was recently renewed for four years, whereby EUKOR will ship 50% of their volume in the next two years and 40% of the volumes in the following two years. The remaining volume was awarded to Hyundai Glovis. WWASA's shares trade at about half book value and at about 5 times' normalised earnings. WWASA operates in a niche within the broader shipping industry where barriers to entry are higher because the products are more specialised and competitors cannot enter the market without scale, expertise, and a track record which takes many years to develop. With an expected reduced cost base from the merger with Wallenius Shipping, WWASA should be well placed to benefit from a turn in the cycle. Treasure ASA trades at a 30% discount to the value of its stake in Hyundai Glovis which itself is attractively valued at 10 times earnings – cheap for a company that has historically generated an average return on equity of about 20%. WMS is a global provider of ship management services and technical solutions. This is a capital-light business because it is service based. WMS generated a high return on equity of around 17% over the last 10 years. It is unlisted and we estimate its value at 6.5 times normalised operating earnings before depreciation (EBITDA).

WWH has struggled in the last three years mainly due to the cyclical downturn which has led to it trading at a deep discount to NAV of about 45%. It is worth noting that this discount is based on market prices for WWH's listed holdings which themselves are trading at deep discounts to intrinsic value. WWH is probably overlooked by the market because it is complicated and few analysts cover it since it does not fit snuggly into standard classifications of the shipping industry. The Wilhelmsen family has little incentive to narrow the discount to NAV at which shares in its listed companies trade because Norwegian residents who have a net worth of more than NOK 1.5 million must pay a wealth tax of 0.85% annually. Nevertheless, it is a well-managed business and the family have been good capital allocators.

Maersk is our second largest investment in the sector, a stake that is worth $7.5 million. It is a Danish family-controlled conglomerate with diversified holdings ranging from container shipping, tankers and supply vessels, port terminal operation, to oil exploration, drilling and production. Maersk continues to simplify its structure. Its most important division is Maersk Line which we think accounts for about half the value of Maersk – most of the balance is attributable to its APM Terminals and Maersk Drilling divisions. Maersk Line is the market leader in container shipping and continues to be the lowest cost operator in the industry. With its cost advantage and scale, Maersk Line continues to gain market share organically and through the recent agreement to acquire Hamburg Sud, the world's seventh largest container shipping company. We think Maersk is the best positioned container shipping company to benefit from the consolidation and concentration of the container shipping market. The recent bankruptcy of Hanjin Shipping, South Korea's leading shipping company, and the merger of Japan's three leading container shipping companies, CMA CGM's acquisition of Neptune Orient Lines in Singapore, and Hapag-Lloyd's agreed merger with United Arab Shipping Company have all the hallmarks of an industry bottom. A record low order book for new container ships and record high scrapping of existing container ships well before their usual retirement age suggest that freight rates ought to climb going forward.

Gaztransport et Technigaz (GTT) is a new holding in the Fund which has already done well for us and is now worth $4.5 million. GTT is a leading provider of containment systems technology for the shipping and storage in cryogenic conditions of LNG (liquefied natural gas), with a 83% global market share of new orders. GTT holds a competitive advantage through the development of its 'membrane' technology which cuts the cost of shipping LNG. The LNG is loaded into the vessel's hold which needs to have cryogenic coatings (membranes) to contain the LNG at a temperature of -163°C. The hold must also be sealed with a totally impermeable layer between the liquid cargo and the vessel's hull, while also limiting loss through boil-off. GTT's patent protected technologies offer significantly higher levels of efficiency and safety at lower cost than competitor technologies. GTT's primary source of income is royalties from licensing its technology so it is an asset-light company with high net profit margins. GTT's asset light model makes it highly cash generative. The company has net cash and no financial debt. It has structurally negative working capital requirements as down payments made by clients ensure that GTT has a surplus cash position over virtually the entire contract. GTT is highly committed to innovation. Recently developed technologies represent more than 80% of the order book. The shares yield nearly 7% and trade at around 12 times earnings.

GTT has been working on a new possible application using LNG as a propulsion fuel and on solutions for small-capacity LNG carriers, a rapid growth market which will be driven by the need for coastal and river LNG transportation. The International Maritime Organisation (IMO) recently introduced new regulations which will require vessels to be equipped with scrubbers, converted to LNG propulsion, or switched to a low-sulphur fuel such as marine diesel of methanol/ethanol. LNG fuel almost totally eliminates sulphur oxides. This could create an entirely new market for GTT. We think GTT's shares are significantly undervalued and there is a potential kicker for growth that is not built into the company's valuation. The downside is that orders will be lumpy and cyclical, but we look at this in terms of what we are likely paying on "through-the-cycle" average earnings.

Agriculture

The Fund has had a longstanding investment in agriculture, with $23 million or 10% of NAV invested in the sector. The Fund's largest investment is Yara International (6% of NAV) which the Fund has owned since it was spun off by Norsk Hydro in 2004. Yara is an excellent business which has provided its shareholders with a compound annual return in US Dollars of 17% per annum since it was listed in 2004. It is the world's largest producer of nitrogen fertilizers. After many years of above average returns, the nitrogen fertiliser industry is in a cyclical downturn due to depressed urea prices, resulting primarily from excessive fertilizer production capacity but also from record crop production depressing agricultural commodity prices. The decline in fertilizer prices has been partly offset by lower gas prices and by the stronger Dollar since Yara's revenues are mostly in Dollars while many fixed costs are not in Dollars. Most competitors use natural gas to produce fertilizer; however China uses anthracite coal as its raw material input which is very inefficient since their plants use 70% more energy to produce each ton of fertilizer than natural gas plants. This makes China the highest cost swing producer and their production levels have a material impact on fertilizer prices. About 2.5 times more CO^2 is emitted from fertilizer producers who use coal relative to those who use natural gas. China is reducing fertilizer production and exports because of environmental concerns and because they acknowledge it is irrational to maintain unprofitable plants for fertilizer exports. Coal prices in China and globally have bottomed and have started to increase which is positive.

The market currently values Yara at $11 billion. It has net debt of $1.3 billion. Yara produces nitrogen equivalent of 11 million tonnes of urea per annum. Currently, 1 million tonnes of urea production capacity costs about $2 billion to build. The value of its distribution system, ships, upgraded products, and technical knowledge is probably worth another $8 billion, allowing no value for the Yara brand. Many of Yara's production facilities are older than today's world scale facilities which are larger and more efficient, and half its production is in Europe where natural gas costs are higher than in the US or Middle East. However, Yara does have its plants located at valuable strategic locations near sea ports which might be difficult to replace today. Even after applying a 25% discount to the replacement cost of Yara's facilities in estimating a value for its urea production facilities, that still results in a value based on adjusted replacement cost that is double the current stock market valuation. Its share price, in Dollar terms, has fluctuated between $30 and $60 for the past 7 years, and it is closer to the bottom of that range currently. Yara should earn around US$2.50/share at the bottom of the urea cycle and around US$6.50/share at the top of the cycle, with the bottom and top of this range increasing over time. For instance, growth initiatives already in place should add around NOK US$0.75/share to earnings by 2019. We therefore look at Yara on a cyclically-adjusted basis and think that it is trading at a P/E of about 9 times through-the-cycle average earnings which is very cheap for an efficiently-run, low cost commodity business with a strong capital allocation track record that produces strong free cash flow. Furthermore, the business is becoming less commodity-like and more value added as Yara is offering crop nutrition solutions, drawing on its years of accumulated knowledge and global R&D. As such, it is becoming increasingly like Monsanto and Syngenta which are accorded much higher valuations. This part of the business now accounts for about a third of the group's profits and this proportion is growing, so Yara is becoming a less cyclical business with more predictable earnings. Hidden within Yara is the Environmental Solutions business which is growing at about 20% per annum and which now accounts for a bit over 5% of Yara's profits. If this was a separate business, it would command a fancy multiple and we regard it as a hidden asset.

The remaining 4% of the Fund's NAV that is invested in agriculture is invested in a quartet of palm oil and rubber plantations listed in Luxembourg and London. Three of them, Socfin, Sofinasia and Socfinaf, are controlled by the Fabri and Bollore families. Socfin is a holding company for its listed West African and Asian plantation companies. Socfinaf and Socfinasia are best-in-class palm oil and rubber plantations based on most metrics. Yet, they are valued at well below the comparable valuations of listed Indonesian and Singaporean plantations like Astra Agro, First Resources, Bumitama Agri and Golden Agri. Socfinasia is being valued at just over 8 times average 5-year trailing earnings and $8,000 per planted hectare compared to 15-50 times average earnings and $13,000-17,000 per hectare for its comparables, even though it is debt-free. Socfinaf, which has had a much more aggressive new planting programme in recent years, is valued at 14 times average 5-year trailing earnings and less than $5,000 per planted hectare. Our fourth plantation, Anglo-Eastern is even more undervalued, in spite of having significant net cash, and trades at less than 6 times average 5-year trailing earnings and less than $5,000 per planted hectare. Though we have good alignment of interest with Anglo-Eastern's controlling shareholder, Madam Lim, she is virtually impossible to access and John Lim (not a relative as far as we are aware), who is Anglo's CEO, will not engage with us on our suggestion that they aggressively repurchase shares at the current ludicrous valuation. The reason why these valuations are so out of line with their Asian listed comparables is largely because they are listed on markets where there is no analytical following and few UK and European investors understand the palm oil and rubber business. Asian plantation companies are taking advantage of the anomaly. Recently, Kuala Lumpur Kelong bid and then increased its bid at an 80% premium to the "undisturbed" price prior to the bid for MP Evans, a London-listed palm oil producer. Even at that significant premium, the bid was rejected as inadequate. With Indonesia's government planning a moratorium on new concessions for palm oil plantations as well as various measures to protect the environment and indigenous people, the supply of palm oil could be constrained in coming years which bodes well for palm oil prices and the value of established plantations. Meanwhile, since the end of August, rubber prices have increased by more than 50%. In Dollar terms, the share prices of our plantation companies are floundering which makes no rational sense.

Politics

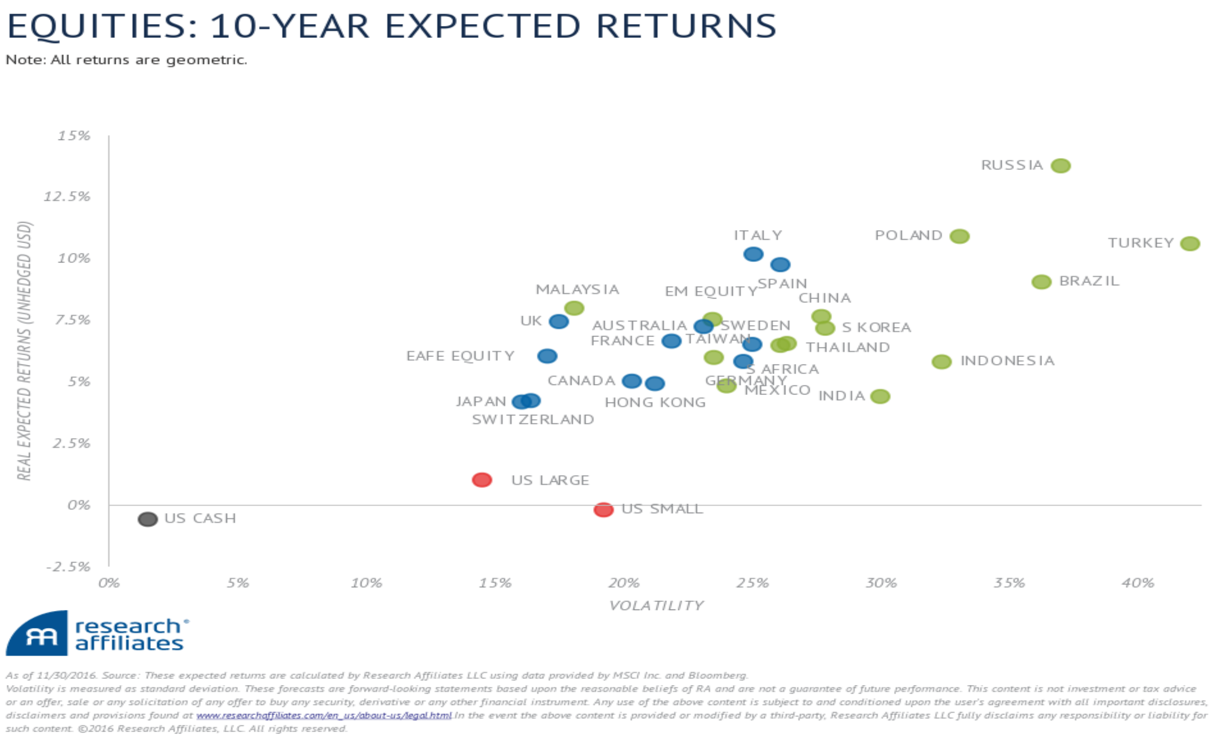
As much as possible, we try to ignore politics. This past year has been filled with political uncertainty, but good luck to anyone who tried to trade markets based on anticipated results, or indeed how markets would react to those results! My simplistic view is that the entire developed world is wallowing in a sea of debt, and has been for some time, and until that debt is repaid, restructured or inflated away, economic growth in the developed world will be sub-par. The reaction by central banks in the developed world, namely quantitative easing (QE) has exasperated the gap between the haves and have nots, resulting in the majority of people in the developed world having a lower living standard now than they did 10 years ago. Voters are going to the polls and voting against the incumbents as they see anything but a continuation of rule by the established elites as better. Whether they get better results remains to be seen.

As part of our approach towards ignoring political noise, we have added value to the portfolio by purchasing shares in three companies that operate in Russia, Sberbank being one that was already discussed which saw its share price double in Dollars last year. We sold 30% of the holding in the latter half of the year, not because we felt the shares are fully valued. Currently, $17 million or 7% of the Fund's portfolio is invested in these three Russian businesses. Shares in all three companies still look very undervalued. We also added value during the year by increasing our existing holdings in some UK and European companies at beaten-down valuations in the aftermath of Brexit. Indeed, in the weeks following Brexit, I added to my wife's and my substantial investment in the Fund.

Our other "counter-political bet" is our investment in a trio of Italian family-controlled holding companies. We have $19 million invested in these three Italian holding companies, plus a further $3 million investment in a London-listed real estate fund that owns Italian commercial real estate. The latter is trading at a more than 60% discount to stated NAV, while the holding companies are trading at 40-55% discounts to NAV. Italy is not a business friendly country. Some of its business, regulatory and legal practices appear almost medieval. It is a shame that Renzi lost the constitutional referendum so we shall see where things go from here. Meanwhile, our holdings are grossly undervalued. Although Italy is such a mess, we have made a lot of money there in the past, our investment in Exor about which I have written in the past being the best example. Last year, we exited our largest Italian investment, Italmobiliare savings shares, at a more than $6 million profit after the Pesenti family undertook a series of transactions, some at our urging, to simplify the group. This shows that even in such a dysfunctional country, it is possible to make money.

Stable assets and a portfolio that bodes well for future returns

The Fund ended the year with net assets of $230 million. The size of the Fund and the stability of our client and asset base are important in allowing us to take a long-term view in buying shares in businesses that are temporarily out of favour with investors – think finance, shipping, Russia and Italy! We think that these out of favour sectors and countries are likely to deliver the highest risk-adjusted returns for those with a long investment time horizon. Analysis by Research Affiliates supports our view that Italian and Russian equities are likely to deliver the highest risk-adjusted returns over the next 10 years.



Last year, the Fund had $4 million in subscriptions and $10 million in redemptions. Redemptions exceeded subscriptions for a few reasons. There were the typical partial redemptions by clients to fund living expenses, philanthropy or distributions not related to dissatisfaction with OAM. We have done no marketing, continuing to rely on word of mouth referral from existing clients. This approach, though passive, tends to lead to clients who are more inclined to stick with us. The Fund ended the year with net cash of $22 million, significantly down on last year, reflective of the investment opportunities that we found last year and continue to find.

I continue to gradually hand over the reins for the management of this Fund to Camilla and Rob with Natalie supporting them as a trainee analyst. Kia, sadly, left us a few weeks ago to move to Sydney, Australia to start a new adventure in her life. We shall all miss her. Camilla had a healthy baby boy six weeks ago and will be back at work full-time at the end of March. This year's annual investment seminar will be about this Fund. I can easily construct a bullish argument for the Fund based on bottom-up valuations of our holdings and a swing back to investors favouring value investing. If currency would move our way for a change, that would be the icing on the cake, but I fear this is the hardest element of returns to predict. Camilla and Rob will be discussing our principal investments in the Fund at this year's annual seminar so I urge you to attend.

Desmond Kinch, CFA
Chairman