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OAM European Value Fund

10th January, 2020

Dear Fellow Shareholder,

In 2019, the Fund's NAV per share increased by 15.2% compared with a rise in its benchmark, the MSCI Europe (US$) index, of 20.2%. During the first 17 years of the Fund's life, its NAV/share compounded at 10.3% per annum. By comparison, the Fund's benchmark rose by 4.3% 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, they would increase by around 2.5 percentage points.

Our views on the undervaluation of European equities remain roughly unchanged from a year ago. Relative to European growth stocks, European value stocks have never been cheaper in my 35-year career. For the past 13 years, value stocks underperformed growth stocks pretty consistently, and the margin of underperformance is unprecedented. Empirical evidence shows that over the long-term, value stocks outperform growth stocks and there are sounds reasons for this phenomenon. However, for uncomfortably long periods for managers pursuing a value strategy, the reverse can happen. Against this backdrop, we are very proud of our returns using a value approach. We even state that approach on the can!

Sticking with the theme of superlatives, European equities are the cheapest relative to US equities in my 35-year career. For the past 12 years, European equities consistently underperformed US equities, and again, the margin of underperformance is unprecedented, certainly over the past 35 years. Over the past 50 years, there is not a massive difference between the returns of US and European equities measured in US dollars - they returned just under 10% and 8% per annum respectively compounded over that period. There have been long cycles over this time span of US equities outperforming European equities and vice versa (please refer to the chart at the bottom of P 13 of my Chairman's statement two years ago). This cycle of outperformance of US equities relative to European equities is both the largest and longest period of relative outperformance by US equities in at least 50 years.

We also believe that the dollar is overvalued and likely to weaken against most major currencies over the next 5-10 years. It is emphatically overvalued on a purchasing power parity basis. As I commented last

year, dollar strength has historically tended to coincide with periods of US equities outperforming non-US equities, even in local currency terms, and vice versa. The reason for this is that investors tend to flock in one direction or the other and money flows inflate or deflate a country's or region's currency and equity market at the same time. Dollar weakness would give us a welcome tailwind going forward instead of the headwind that we experienced for most of the past decade.

A reminder of why the Fund's prospects are not tied to slow growth Europe

A number of clients have expressed concerns over the years that Europe has so many political and economic problems that it is unlikely to grow much. That part of their analysis is correct. Indeed, the Eurozone has grown in nominal terms at around 2.5% per annum and by little more than 1% per annum in real terms over the 17 years since the Fund's launch. Yet the Fund provided compound annual returns of over that period of more than 10% per annum.

Why is there such a gap between the region's economic growth rate and the Fund's returns? One reason is that the Fund favours investing in companies that are global businesses, and particularly those with a lot of exposure to faster growing emerging markets. It is a gross generalisation, but our observation is that European companies are usually better than US companies at assimilating and doing business with foreign cultures when they expand outside their home market. A meaningful number of the Fund's investments derive nearly all their earnings outside Europe.

Another reason for the gap is that European equity markets are far less efficient than the US equity market in correctly valuing businesses. In the US, few investment managers outperform benchmark indices, net of fees and expenses, over long periods of time. Our track record since inception shows that we have had a different experience in Europe. We see few signs of European equity markets becoming more efficient since we launched the Fund.

The next decade

There are many reasons to be positive about the Fund's prospects during the next decade. A number of longer lasting factors hurt the Fund's returns during most of the past decade, namely US dollar strength and the polarisation of stock markets in favour of growth stocks while ignoring value stocks. During the past decade, the euro declined by 22% versus the US dollar, while the Norwegian krone (NOK) and sterling declined by 34% and 18% respectively. That provided a strong headwind to the Fund's US dollar returns. The magnitude of the shunning of value stocks in Europe by investors is shown in the following Bloomberg chart of the MSCI Europe Value index relative to the MSCI Europe Growth index. There is a very decent chance that these negative factors will reverse this decade and help the Fund generate a return that is better than its 7.0% compound annual return during the past decade. During most of the prior decade, these factors were in our favour. The euro appreciated by 36% from 1.05 when the Fund was launched at the end of 2002 to 1.43 at the end of 2009, while the NOK appreciated 20% from 6.94 to 5.79 and sterling remained unchanged over the period at 1.61. Meanwhile, value stocks outperformed growth stocks for the first eight years of that decade. In spite of the big drawdown during the Global Financial Crisis, the Fund returned 15.1% per annum from its launch at the end of 2002 to the end of that decade.

Financials

Stock market investors have a habit of worrying about what happened during the last crisis. No two crises are alike and usually caution is exercised towards a sector or asset class that was hit particularly hard during the last crisis so that excesses seldom build in the same place leading up to the next crisis. We think excesses and bubbles today are found in ETFs and passive index funds; private equity funds, particularly in venture capital; and investment grade bonds, many of which are likely to be downgraded in the next downturn and which are currently trading at very low yields. Meanwhile, financial companies as a sector look cheap and under-owned. Looking at Warren Buffett's investments in recent years, it seems that he agrees. While many banks and insurance companies in Europe look optically cheap, trading at big discounts to book value in many cases, we think most of them will struggle to make anywhere close to a 10% return on equity as long as interest rates in Europe remain at or close to zero, or in some cases negative. Furthermore, we think that banking and insurance are commodity-like businesses and the main things that distinguish the good from the bad are quality of management, corporate culture, the ability to operate in niches where competition is limited, and the ability to use technology to lower costs and improve customer experience. The Fund has 25% of its net assets invested in six companies in the financial sector. Our holdings in the sector remain unchanged from last year.

At year end, Sberbank GDR's listed in London was the Fund's largest investment, worth over $16 million. Sberbank has an excellent CEO, Herman Gref. It is very good at using technology to improve the customer experience and it has a very low cost to income ratio, while its net interest margins are over 5%. These drive the bank's return on equity of comfortably over 20%. During the year, Sberbank closed the sale of DenizBank in Turkey for US$2.8 billion which improved its capital adequacy ratio. An improved capital adequacy ratio and a desire by the Russian Government for state-controlled companies to increase their

dividend pay-out ratios over the next few years to 50% will result in Sberbank paying higher dividends. The shares still look deeply undervalued at 6 times 2019, 5.5 times 2020 estimated earnings, and a nearly 8% dividend yield this year, rising to more than 9% next year. Russia's withholding tax rate on dividends is only 15%. The "icing on the cake" as noted in last year's letter is that the ruble appears to be significantly undervalued. During the year, the ruble appreciated 12% from 69 to 62, and the prospects for further currency appreciation remain strong.

Standard Chartered is our next largest investment in the banking sector, currently worth over $12 million. Like Sberbank, it has an excellent CEO in Bill Winters. It uses technology to lower costs and has started rolling out a new mobile digital banking platform in Africa. It also competes primarily in Asia, Africa and the Middle East where economies are faster growing and competition less fierce than in Europe. Last month, it agreed to sell its 44.6% stake in Bank Permata in Indonesia at 1.8 times book value for US$1.3 billion. The bank started buying back and cancelling shares this past year, and the closure of the Permata sale, hopefully next year, will further strengthen its capital adequacy ratio and allow it to continue repurchasing shares. The turnaround of the bank by Winters is now firmly on track. Last year, the shares returned 25% in US dollars and remain undervalued at 0.7 times book value, 12 times 2019 and less than 11 times 2020 estimated earnings, with a dividend yield of 3%, free of withholding tax.

Close Brothers is our other investment in the banking sector. This is a longstanding investment, now worth nearly $12 million. Close Brothers is primarily engaged in niche lending to small and medium-sized businesses in the UK. They are very good at what they do and earn a net interest margin of 8% and generated a return on equity that averaged over 20% in their banking business over the past 10 years. Apart from operating in less competitive niches, there are a few aspects that make Close Brothers unusual compared to other banks. One is that most banks borrow short-term and lend long-term – they generally borrow by taking on short-term deposits, and lend long-term by giving mortgages. This makes banks vulnerable during a liquidity crisis. The average term of Close Brothers' borrowing and deposits is longer than the average term of its lending. This makes them less vulnerable to liquidity crises, and therefore less risky. Most banks tend to increase lending when economic growth is in full swing and rein in their lending when the economy is soft. Close Brothers does the opposite which makes them less susceptible to competition and a more reliable lender to their many repeat customers. Since 1991, which is as far back as data is available on Bloomberg, Close Brothers shareholders have generated a 13.9% compound annual return in sterling, compared to 5.6% per annum for Barclays, 3.9% per annum for Lloyds, and zero for RBS shareholders over the same period. Niche lending is infinitely more attractive than traditional high street banking if done well. For a business of this quality, the shares remain undervalued at less than 12 times earnings and a 4.2% dividend yield, free of withholding tax.

NN Group is our largest investment in the insurance sector. In August, Lard Friese stepped down as CEO, which was disappointing as he did an excellent job, particularly in cutting costs. We still think NN Group is an excellent investment. It is a mature life and general insurance business that is dominant in the Netherlands. The company is currently valued at €12 billion. It is expected to report net profits of around €1.5 billion this year excluding exceptional gains. It has a high solvency ratio which allows it to return most of its free cash flow to shareholders by paying a dividend of about €0.7 billion and through repurchasing shares worth about €0.5 billion annually. The shares are far too cheap trading at a 12% free

cash flow yield, most of which is returned annually to shareholders through dividends and share repurchases.

Vienna Insurance Group (VIG) is our next largest holding in the insurance sector, worth $8 million. VIG has better growth prospects than NN. It generates about 60% of its profits in Eastern Europe where insurance spending per capita averages around one eighth that of Western Europe. The remainder of VIG's profits are generated in Austria. VIG has an even higher solvency ratio than NN and intends to use the strength of its balance sheet to expand further into Eastern Europe and to raise its dividend payout ratio. It has been ably led by Elizabeth Stadler for the past four years. VIG is at the forefront in using technology to engage with customers and improve processes. Last year, it was awarded the most innovative insurance company in 2019 by the financial magazine Borsianeras as part of its annual ranking of the best financial companies in Austria. The shares remain undervalued at 10 times earnings and a more than 4% dividend yield.

Our smallest holding in the financial sector is Hiscox, worth $5 million. This is a longstanding investment. It is an excellent underwriter and well-run business under the leadership of Bronek Masojada for the past 12 years. They are building a valuable insurance brand. The shares do not look particularly cheap, particularly after a steep drop in profits last year. However, a similar steep drop in profits also happened in 2011 when we sold half our holding, recouping our entire cost. Since then, Hiscox's share price in US dollars tripled before pulling back about 20% recently. We would love to own more of this excellent business but will refrain from adding to our holding unless the shares get cheaper.

Family-controlled investment holding companies

Investing in family-controlled investment holding companies with good track records of allocating capital and growing net asset value (NAV) per share has been a very profitable strategy throughout the Fund's history. We monitor about two dozen investment holding companies in Europe that are controlled by very wealthy families. When we see an opportunity to buy shares at an unusually wide discount to NAV, we usually take advantage of the anomaly. There is seldom a specific catalyst for the discount to NAV to narrow, but we generally have the wind at our back with NAV per share growing while we wait. We also have the protection offered by our alignment of interest with the controlling family. Our experience has been that we have limited competition in this market niche. Currently, the Fund has 27% of its portfolio invested in family-controlled investment holding companies.

Our largest investment in this segment of the Fund's portfolio is Wilh. Wilhelmsen Holding where we have a nearly $15 million investment. This company has been a victim of Trump's trade war rhetoric, more from a perception point of view than in terms of any impact on its profitability. Its share price halved since the trade war began in January 2018, but profits increased quite strongly last year because of better pricing. This Wilhelmsen family holding company is the global market leader in shipping and logistics for transporting cars, trucks, and high and heavy equipment around the world. The shipping industry tends to have very low barriers to entry and be highly competitive with low returns on capital over a cycle, with marginal players going bust at the bottom of every cycle. The car carrier and logistics businesses for transporting cars has higher barriers to entry, tends to have longer term charter arrangements with

customers, and is more profitable than most other types of shipping. Over the past 25 years, Wilhelmsen shareholders generated a compound annual return in US dollars of 9% per annum, even though the shares are now at a relatively depressed price. Over the past 25 years, we estimate that NAV per share grew by over 10% per annum. We have high conviction that Wilhelmsen is very close to the bottom of the cycle which may already be turning. Based on that conviction, we increased the size of our shareholding in the company significantly in May with large block purchases of both the A and B shares. We bought at what we think is a more than 60% discount to NAV which is roughly where the shares still trade. This is as cheap as the shares have been in the past 20 years or more. We are not alone in thinking that the shares are deeply undervalued. In September, the company tendered to buy back 2 million shares in a tender offer at a premium to the share price which was undersubscribed. The company still bought back 4% of its outstanding shares which was accretive to NAV per share. The family sold none of its shares.

Another Norwegian family holding company in which the Fund owns shares worth $8 million is Bonheur, the Olsen family holding company. In April, Camilla visited Bonheur and Wilhelmsen in Oslo. Please e-mail us if you would like our client newsletter “A Tale of Two Shippers” that she wrote following her visit. Last year, Bonheur’s share price more than doubled and has quadrupled over the past 3 ½ years. In last year’s Chairman’s statement, I wrote that we estimated Bonheur’s discount to NAV at a massive 61%, similar to the discount to NAV at which Wilhelmsen trades today. In my Chairman’s statement three years ago, I noted that the Wilhelmsen and Olsen families have 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. However, both families have proved to be excellent capital allocators. They have also taken actions to simplify their convoluted structures: by merging Bonheur and Ganger Rolf in the case of Bonheur, and merging Wallenius and Wilhelmsen in the case of Wilhelmsen. Bonheur has an even better 25-year track record than Wilhelmsen, delivering a compound annual return in dollars of 11% per annum to shareholders. Today, we estimate that Bonheur’s shares trade at a 30% discount to NAV. During the year, we sold half the Fund’s holding in Bonheur for around $8 million, recouping our entire cost. We still think the shares have further upside. About 80% of Bonheur net assets are comprised of onshore wind farms and specialised ships for installing and maintaining offshore wind farms. Most closed-end funds that invest in wind power currently trade at a premium to NAV, including The Renewables Infrastructure Group (TRIG), a more than £2 billion fund that trades in London at 20% premium to NAV. Four years ago, Bonheur sold 49% of six wind farms that it developed in Scotland to TRIG for £246 million. Bonheur still owns 51% of these wind farms which they operate.

The other country where we have been finding bargains in family-controlled holding companies is Italy. In contrast to Norway which has the world’s largest sovereign wealth fund worth over $1 trillion, Italy has one of the highest government debt to GDP ratios in the world. In spite of this, we have had great success over the years investing in Italy. Our two largest investments in Italy are Italmobiliare and Cofide, each worth about $7 million, that are controlled by the Pesenti and de Benedetti families respectively.

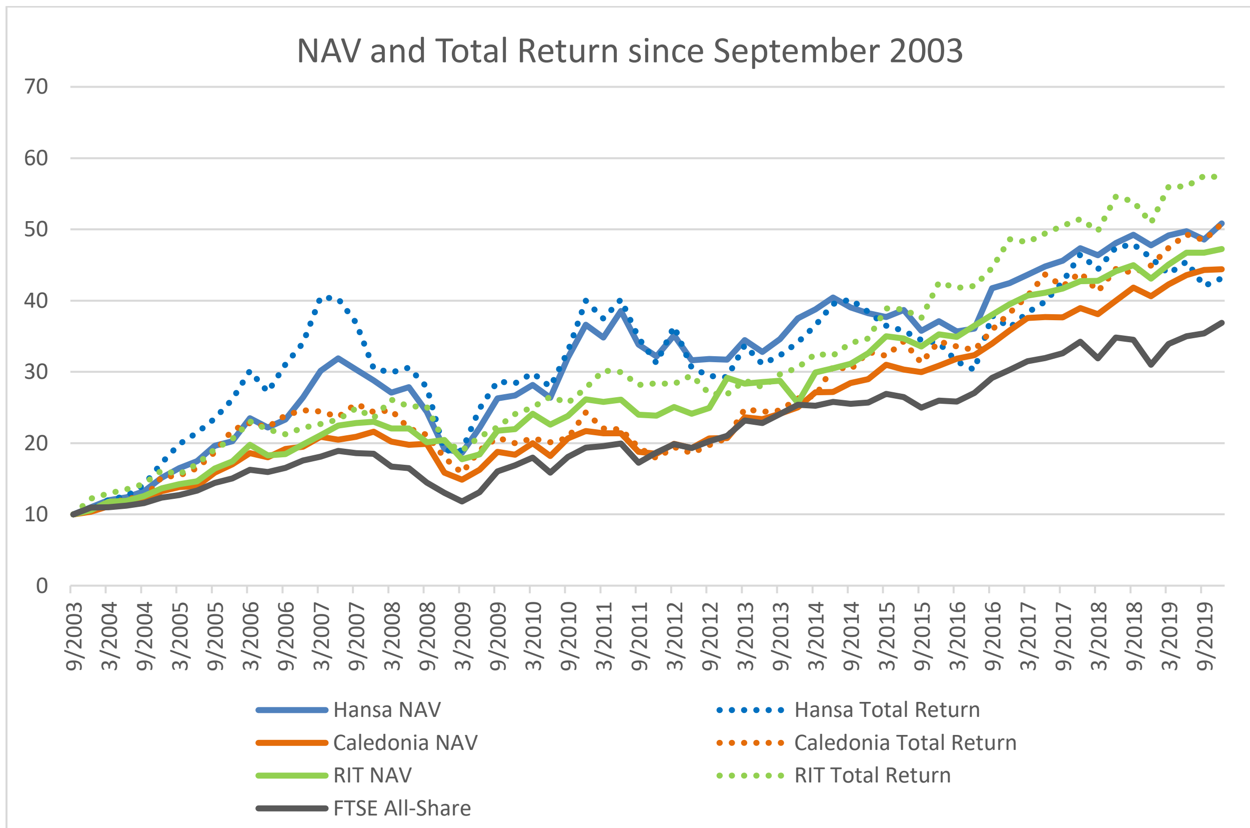
In 2016, we sold our Italmobiliare savings shares, at a more than $6 million profit after the Pesenti family undertook a series of transactions, some at our urging, to simplify the group - see my 2016 and 2017 Chairman’s statements. A year ago, we took another closer look at Italmobiliare, following which we

accumulated an investment in the company at a price well below where we sold our savings shares in 2016. Italmobiliare is a much different holding company today than when we owned it in the past. In 2017, they bought back nearly 10% of their shares for €100 million at a large discount to NAV, and later that year, they bought 40% of Tecnica - the remaining 60% is owned by the founding Zanatta family; and in May 2018, they bought 60% of Caffé Borbone - the remaining 40% is owned by the founder, Massimo Renda. Caffé Borbonne (19% of NAV) and Technica (7% of NAV) look like excellent investments. Caffé Borbonne manufactures coffee pods and capsules that are compatible with Lavazza and Nespresso coffee makers, but at a lower cost, and according to my son who is currently working in Milan, Borbonne's coffee is better. Caffe Borbonne is #3 in Italy after Nestle and Lavazzo. Over the last 4 years, Borbonne's sales nearly tripled and its EBITDA margin jumped from 19% in 2015 to 25% in 2018. In the first nine months of this year, Borbone's sales increased by 31% YoY and its EBITDA margin exceeded 30%. Tecnica is a leading sportswear manufacturer and owns some well-known brands: Tecnica (ski boots and footwear), Nordica (skis and boots), Moon Boot (footwear), Lowa (hiking boots and outdoor wear), Blizzard (skis) and Rollerblade (inline skates). Last year, Tecnica acquired 15% of its German subsidiary Lowa which contributes roughly half of the group's revenues, increasing its stake in Lowa to 75%, with the remaining 25% held by the CEO of the company. At the same time, Lowa took over Riko Sport which was its main manufacturer of footwear. This simplified Technica and made it far more profitable. Italmobiliare still has shareholdings in Heidelberg Cement which bought Italcementi, and in Mediobanca, both of which are likely to be sold when further attractive private equity deals are found. Last year, Italmobiliare made two other positive announcements. Partly based on our suggestion, they cancelled all their repurchased shares, amounting to nearly 11% of their outstanding shares. They also sold the rest of Jaggaer, an earlier private equity investment, at a 48% IRR. The company now has over €500 million in net cash, equivalent to more than half its market capitalisation, available for future deals. In spite of this, the shares trade at a 35% discount to NAV. We expect the NAV per share to increase as Caffé Borbonne and Tecnica get closer to a listing or trade sale.

Cofide currently trades at a discount of 31% to NAV. Last year, CIR and Cofide agreed to merge. The de Benedetti family controls Cofide which in turn has a controlling stake in CIR. In addition, last month, CIR agreed to sell its 44% shareholding in GEDI, one of Italy's leading newspaper publishers, to the Agnelli family holding company, Exor, for about €100 million. Following the CIR/Cofide merger and completion of the GEDI sale next year, Cofide, which will be renamed CIR, will be a very simple structure consisting of a large net cash balance and near cash totalling almost 50% of NAV; a 60% shareholding in KOS (40% of NAV) which is one of Italy's leading nursing homes chains; and a 57% shareholding in Sogefi (10% of NAV), a listed car parts manufacturer. We expect this large cash position to be used to further develop KOS and repurchase shares. CIR has been an aggressive repurchaser of its own shares in recent years. Share repurchases or a tender offer at the current share price would be highly accretive to CIR/Cofide's NAV per share.

The Fund has an investment worth nearly $9 million in Hansa Investment Company and another $1 million investment in its listed subsidiary, Ocean Wilsons. At a time when discounts to NAV of London-listed funds have shrunk to historically low levels, Hansa stands out as an anomaly, trading at the highest discount to NAV in over 20 years. The shares currently trade at a 34% discount to NAV and William

Solomon who controls Hansa with his family has been buying shares in the market. We estimate that if we value Ocean Wilsons at NAV and adjust the value of its underlying holding in Wilson Sons to reflect our estimate of intrinsic value, the shares are trading at a 45% discount to NAV. Hansa was one of three investment trusts listed in London that are controlled by wealthy UK families who use them as investment vehicles, in Hansa's case by the Salomon family. The other two are RIT Capital Partners controlled by Lord Jacob Rothschild and Caledonia Investments controlled by the Cayzer family. Camilla collated historic NAV data for the three investment trusts, going back as far as possible. As the chart below shows, Hansa Trust has had slightly stronger NAV returns over the past 16 years (10.8%/annum) than RIT Capital (10.2%/annum), Caledonia Investments (10.1%/annum) and the FTSE All-Share (8.2%/annum). Yet, the three trusts trade at markedly different valuations: Hansa trades at a 34% discount to NAV, RIT trades at a 9% premium to NAV, and Caledonia at a 15% discount to NAV. The primary reason for Hansa trading at a large discount to NAV is that Hansa's NAV performance has been mediocre for the past 8 years. This is largely a result of having significant exposure to Brazil where the market halved in US Dollars between mid-2011 and mid-2018 before starting to recover during the past 18 months. This past summer, both Camilla and I met William Salomon in London. We share Hansa's investment philosophy and like our alignment of interest with the Solomon family. During my meeting with William Solomon, I made a few suggestions to simplify the structure, more details of which are set out in our July client newsletter. Please e-mail us if you would like our client newsletter "Should we still invest in closed-end funds?" that I wrote following my meeting.



Pargesa and Sonae are the Fund's other large investments in European family holding companies, each worth $6 million. Little changed at Pargesa during the year and its shares continue to trade at an attractive look-through discount to NAV of 36%. Sonae trades at a 54% discount to management's calculation of NAV. Sonae has been trading at a wide discount to NAV for a number of years now. Management believes this is due to the failed IPO of its food retail business, the increased stake in its international shopping centre business, Sonae Sierra, and the recent management change. When the IPO of Sonae MC, the food retail division, was first announced, there was significant investor demand for it. However, by time the IPO details were finalized, market conditions were very different. Management decided against proceeding with the IPO as it was not willing to sell Sonae's best asset at a bad price. Sonae MC is the market leader in hypermarkets and supermarkets in Portugal, with best-in-class operations. Sonae Sierra is a joint venture with Grosvenor Group. Following the death of the Duke of Westminster, the new Duke wanted to increase the Group's exposure to Asia; this resulted in the Group reducing its stake in Sonae Sierra from 50% to 30%. Sonae bought Grosvenor Group's 20% stake. The market has viewed this somewhat unfavourably as shopping centres have lost popularity in other regions; however, Sonae Sierra's shopping centres continue to have high occupancy rates. Sonae Sierra's approach is to develop assets and sell them as they mature. Claudia de Azevedo recently became CEO of Sonae, her family's holding company. In the summer, Camilla met with her in Portugal. She is determined to narrow the discount to NAV at which Sonae trades.

Closed-end funds

As a firm, we have been investing in closed-end funds trading at a discount to NAV for nearly 30 years. The premise of these investments is that we are typically buying a dollar of assets for around 70 cents – a 30% discount to NAV. If the NAV increases by 7%/annum over five years from a dollar to $1.40, and the discount to NAV is eliminated over that period, the share price doubles and we make 15%/annum. However, the closed-end funds in which the Fund invested in recent years turned out to be mediocre investments relative to our other investments. In the past year or two, it has become increasingly evident to us that the closed-end fund sector in London is "over-broked": there are too many brokers serving this sector. The result is that what started out as a very profitable strategy of buying closed-end funds at a big discount to NAV and agitating for change, or waiting patiently for the discount to narrow has become a crowded space with too many players on both the sell side (brokers) and the buy side (investors like us) competing. Our conclusion is that "over-broking" in the closed-end fund sector has put enormous pressure on those working in the sector to create more product and quality has suffered. The easiest funds to launch are in hot sectors that are likely near a peak. One needs to tread very carefully. We now have only 15% of the Fund's assets invested in closed-end funds, down from 28% eighteen months ago.

Baker Steel Resources Trust (BSRT) is our largest investment in this segment of the Fund's portfolio, currently worth $10 million. We are the largest shareholders alongside Trevor Steel, David Baker, and RIT Capital Partners/trusts of the Rothschild family, each owning roughly equal stakes totaling about half the outstanding shares. This has been a successful investment with further rewards likely to come over the next few years. Last year, the Fund received $1.2 million from BSRT as a result of tendering some of our shares at a 10% discount to NAV in what we think is likely to be an annual tender offer for shares. The shares remain undervalued at a 20% discount to NAV. BSRT's portfolio feels ripe with catalysts that should

lead to an uplift in its NAV. A detailed discussion of BSRT's largest holdings and likely catalysts that we expect to result in an increasing NAV/share was included in our client newsletter "Should we still invest in closed-end funds?"

The Fund has holdings worth about $4-6 million each in Better Capital, Raven Property, Spice Private Equity, Ashmore Global Opportunities and Altamir. I have written about these in the past so I will comment on noteworthy developments in the past year. Better Capital 2009 and 2012 and Ashmore Global Opportunities (AGOL) are both selling assets and distributing capital to shareholders. During the past year, the Fund received $1.5 million from AGOL, but disappointingly, AGOL's holding in Microvast was written off. The remaining investment in AGOL is worth $4 million and we expect to receive back not much more than that in distributions, but we expect all AGOL's remaining investments to be sold this year. Better Capital's two share classes continue to trade at very wide discounts to NAV and during the past year, both the Fund and Jon Moulton added to their investment in both share classes. We expect both Better Capital cells to sell their assets within the next three years and return capital to shareholders in tranches. Last year, the Fund received a capital distribution of £0.3 million from the 2012 cell. We expect to receive back considerably more in distributions than the current $5.5 million value of the Fund's investment in the 2009 and 2012 cells.

At the end of May, I went to Switzerland to attend the Spice Private Equity AGM. In spite of being home to some of the best companies on earth, Switzerland's protections offered to minority shareholders are some of the weakest of any market in which we have ever invested. I also spent nearly two hours before the meeting reviewing Spice's portfolio investments with one of the partners of GP Investments, its manager. When I suggested to him during our meeting, which I reiterated to the Board of Directors at the AGM during the Q&A session, both the GP partner and the Chairman of Spice's Board agreed that doubling the NAV per share to $80 in five years is a realistic objective. Given that today's share price is less than $20, even if the share price discount to NAV narrows from the currently excessive 50% to a still wide 25% we would roughly triple the value of our investment, currently worth $5 million, over the next five years if this objective is achieved, plus earn a roughly 5% annual tax-free return from dividends while we wait. Spice recently distributed an annual dividend of roughly $1.00 per share, that is free of withholding tax, which they pledged to increase for the next two years. Another positive development is that they have reduced fees and expenses significantly, but directors' fees and expenses are more than double what they should be for a listed private equity fund of this size.

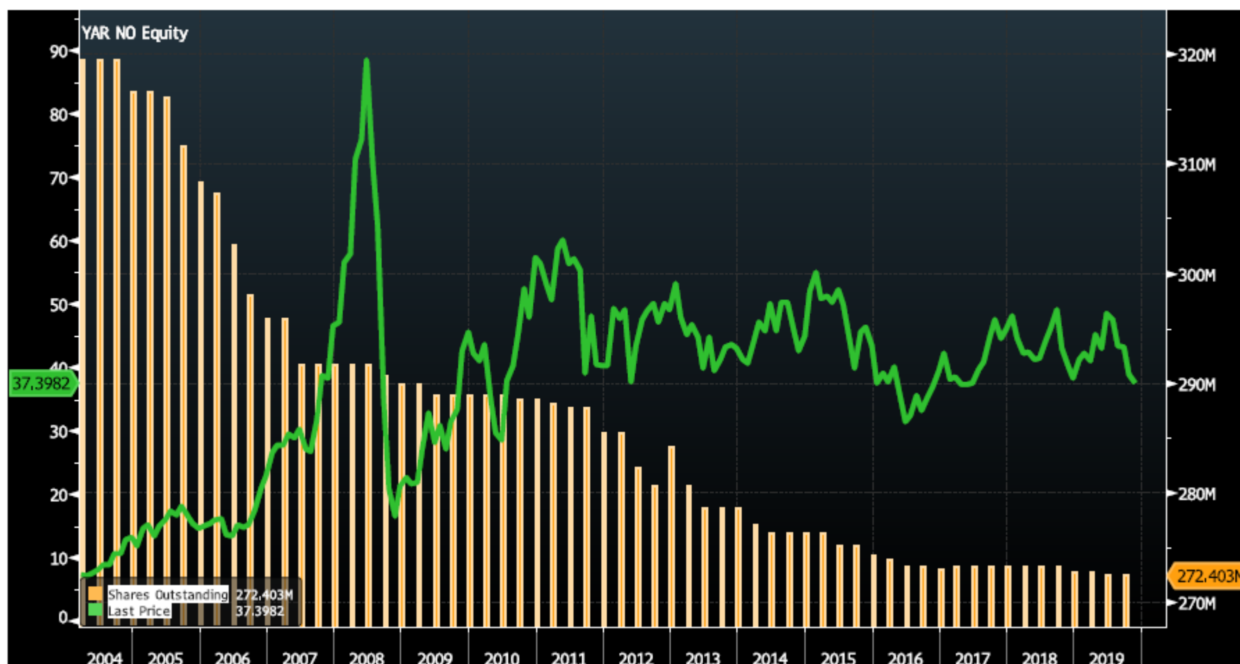
Raven Property is another investment where we are unhappy with their corporate governance, but we like their portfolio of Class "A" warehouse complexes located primarily near the ring roads around Moscow. Modern logistics warehouses are an attractive asset for which there is rising demand as online shopping increases its share of retail spending. We also like Raven's valuation: the warehouses are valued at 12% cap rates in calculating its NAV, and Raven's shares trade at a 45% discount to estimated NAV if the recently announced buyback of Invesco's ordinary shares is approved and these shares are cancelled. We have concerns regarding how much senior management is paid and the degree of disclosure of expenses which seem high. We wrote to the Board of Directors and Anton Bilton, the founder and Deputy Chairman who is also a large shareholder, but to no avail. Towards the end of the year, we sold nearly half the Fund's holding in Raven's ordinary shares, after having bought £900,000 of their convertible

preferred shares in July at a 12% yield to maturity in 7 years. This was part of Woodford's large holding that was placed by Raven's co-broker. This security is at the top of Raven's capital structure so it has first claim on Raven's assets. We now have an investment of $1 million in Raven's ordinary shares and $4 million invested in its two classes of preferred shares which pay us an attractive tax-free yield in sterling, plus we have an equity kicker through the convertible preferred.

Altamir continues to perform well, but its shares still trade at a too wide 31% discount to NAV. One issue that has plagued us is that Altamir pays an annual dividend and we lose 30% of it in French withholding tax. With the assistance of the company, its lawyers, and the Cayman Islands Department of International Tax Cooperation, we believe that we have clearly established that the Fund should not have any tax withheld from dividends that it receives from Altamir. Prior to year end, we engaged a law firm in Paris to file for a withholding tax refund from the French Government and to get a definitive ruling that tax should not be withheld from future Altamir dividends received by the Fund.

Other large holdings

The Fund has an investment in Yara International worth $15 million. Almost since the Fund's inception and since the spin-off and listing of Yara, this has been one of the Fund's largest investments and we expect this to remain the case. Whilst we trade around the position size, we think this is an excellent business that is likely to generate high returns for shareholders. Since its listing in 2004, Yara generated a compound annual return for shareholders in US dollar terms of 16% per annum. The company is well-run from an operational point of view, and importantly, they are excellent capital allocators. This Bloomberg chart shows how Yara steadily reduced its total shares outstanding (shown as orange bars). The chart also shows that share repurchases took place in 2005-07, 2008-09, and 2012-16 – periods when its share price (shown by the green line) most undervalued the company. Encouragingly, during the past few months, Yara repurchased 0.8% of its shares.



We believe that the nitrogen fertiliser industry is at a cyclical trough and is likely to recover in the next few years. On the supply side, capacity additions are now below demand growth and this is likely to last several years given the typical 4-year time horizon from announcement of new capacity to production. The current urea price in the low $200s per tonne is about $100 per tonne below the breakeven to cover the cost of capital to build a new urea plant. China, which has been a large exporter of urea in the past, has shrunk its urea exports dramatically in the past two years as significant capacity was shuttered due to its more stringent environmental rules. On the demand side, low agricultural commodity prices have depressed demand. Urea prices fluctuated for most of the past 15 years between $200 and $600 per tonne and averaged in the low $300s. The consensus is that Yara earned about $3.00 per share last year and should earn about $3.50 per share this year so its shares are cheap if this is a cyclical trough. Over the past 17 years, Yara's return on equity averaged just over 20% and book value per share today is just over $30. As a crude estimate, we think Yara's mid-cycle EPS are around $6, and at urea prices in the low $400s, they should earn about $10 per share. In essence, we think that Yara's shares are trading at a more than 40% discount to our estimate of their intrinsic value.

Gazprom Neft is an integrated Russian oil company. We own the GDRs listed in London. This has been a very good investment for the Fund which is now worth over $9 million. We think it is a well-run company with decent corporate governance. So far, the Fund has roughly doubled its money, inclusive of dividends, over a relatively short period and the shares still look deeply undervalued trading at a P/E of 5 and a dividend yield of more than 8%. We expect its dividend to increase handsomely over the next couple of years for the same reasons noted in my earlier discussion of Sberbank.

GTT's order book for LNG carriers reached an all-time high in 2019 and it received a significant number of orders for the design of tanks for LNG as a propulsion fuel. In July, Camilla met with the CFO of GTT in Paris. GTT remains the clear market leader in containment systems for transport and storage of LNG. Some of the shipyards that assemble the containment systems have tried to replicate GTT's technology and failed miserably. Adjusted for its large net cash balance, GTT trades at 19x 2020 estimated earnings, so we sold nearly $2 million of our GTT holding during the year but believe there is further upside potential as the demand for LNG continues to increase and ships start using LNG as a propulsion fuel. GTT remains an $8 million investment in the Fund, virtually all of which represents profit.

Liquidity risk

The travails of Woodford Investment Management are a wake-up call for the fund management industry. In a parliamentary hearing in June, the Bank of England governor Mark Carney said that funds which invest in illiquid assets but allow investors instant access to their money are "built on a lie, which is you can have daily liquidity" and called for changes to regulations. Carney added that for assets that "fundamentally aren't liquid or might become illiquid in a market downturn", he said the damage of that "lie" for financial stability is that it "leads to an expectation for individuals that it's not that different from having money in a bank". He concluded that fund investors should expect redemption terms that are in line with liquidity of the underlying assets.

One of the responsibilities taken by the Fund's Board is to review the liquidity of its investments to make sure that they are in line with the Fund's redemption terms. Shareholders in the Fund can redeem all or part of their holding by providing signed redemption instructions to the Fund 14 days prior to the Redemption Day which is the last business day of each month. The Fund also has the power to pro-rate all redemption requests on any Redemption Day to limit total redemptions to 20% of the Fund's shares. I therefore review the Fund's portfolio on a regular basis and report to the Board to ensure that at least 20% of the Fund's portfolio is likely to be liquid within 14 days and at least 50% within 3 months. To make this determination, we use a third of average daily trading volume during the past six months as an assumption of likely liquidity. On this basis, the Fund's portfolio easily matches its liquidity terms and these parameters.

A stable base of investors

The Fund ended the year with net assets of $257 million. Last year, the Fund had $3 million in subscriptions and $12 million in redemptions. This is the fifth consecutive year that the Fund has had net redemptions. This is a function of us not marketing, instead relying entirely on word of mouth referrals from happy clients, and our clients getting older. As our clients get older, some of them draw down capital for living expenses, to give to children, or because they become more risk averse.

Camilla co-manages the Fund with me and is taking primary responsibility for an increasing portion of the Fund's holdings and doing a greater proportion of visits to the companies we own in Europe. There were no changes to the OAM team during the year.

The directors and their wives in aggregate now own 13% of the Fund's shares and entities which they manage or of which they are a director own an additional 4% of the Fund. A very high proportion of our financial assets is invested in the OAM funds. We think that our funds are likely to provide investors with higher returns than most other financial assets over the next 5-10 years. On a 1-5 year view we are agnostic. A long overdue tumble in US equities from very high valuation levels would be damaging in the short-term, but we think could be a longer-term trigger for allocation away from US equities. In the meantime, we feel very comfortable with the valuation and growth prospects of what we own. Whilst in the past we have increased the minimum investment requirement to prevent assets growing too rapidly, we recently reduced the minimum required to open an account to $500,000 to new clients to invest in our two funds at a time when we believe they both look attractive.

Desmond Kinch, CFA
Chairman