Overseas Asset Management (Cayman) Ltd.
The Pavilion Cricket Square
PO Box 597 Grand Cayman KY1-1107 Cayman Islands
T 345 949 8787 345 949 8780 F 345 949 7760
E info@oam.com.ky www.oam.com.ky

OAM European Value Fund

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Dear Fellow Shareholder,

What a year! In the first quarter, the Fund's NAV/share fell nearly 30%, before recovering nearly 45% to end the year up 1.8% compared with a 2.4% increase in its benchmark, the MSCI Europe (US$) index. At the depths of despair, we felt that the degree of decline in valuation of most of the businesses we owned was unwarranted, but we have never seen a global bear market that lasted six weeks. The prospect of a complete lockdown of most European economies for an unknown period resulted in at best a foggy outlook. At the time, the focus for me and Camilla was to arrange as many Zoom and Teams calls as possible with senior management to assess the damage to their business and their ability to survive without dilution from equity issuance. Having been surprised by the ferocity of the first quarter decline, we were equally surprised by the speed of recovery. The scale of money printing by central banks and government deficit spending, some of which unquestionably made its way into stock markets, probably contributed in large part to the sharp and quick recovery in equity markets. This took place against the backdrop of the global economy experiencing its deepest downturn in a century. Questions arise as to whether this money printing and government largesse will have longer term consequences. I address this issue in a later section of this letter.

Rather than focus just on last year, we think a more meaningful scorecard is the Fund's track record over its 18 years of existence which covers multiple market cycles. Importantly, it includes a short period at the beginning of the Fund's life when value investing excelled and a much longer period of drought for value investing subsequently. Over 18 years, the Fund's NAV/share compounded at 9.8% per annum. By comparison, the Fund's benchmark rose by 4.2% 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.

A year ago, I wrote that "relative to European growth stocks, European value stocks have never been cheaper in my 35-year career"; "European equities are the cheapest relative to US equities in my 35-year career"; and "the dollar is overvalued and likely to weaken against most major currencies over the next 5-10 years". These superlatives are equally, if not more, applicable today.

In this year's Chairman's statement, I wish to focus on the stark divergence between the valuation of US growth stocks and European value stocks. The following table shows the year end value of the 10 largest components of the NASDAQ 100 index. These 10 companies account for more than half the value of the NASDAQ 100 index, with a cumulative market value of over $9 trillion.

Company	Market cap (bn)	Est 2020 profit (bn)	2020 P/E	Est 2021 profit (bn)	2021 P/E
Apple	2,232	57.4	39	71.1	31
Microsoft	1,682	51.2	33	56.2	30
Amazon	1,634	17.7	92	23.0	71
Alphabet	1,105	35.6	31	42.4	26
Tesla	669	1.2	557	3.1	216
Facebook	657	27.0	24	30.7	21
NVIDIA	323	4.2	77	5.4	60
PayPal	274	3.4	81	3.7	74
Adobe	240	5.3	45	4.2	57
Netflix	239	2.9	82	4.2	57

The following table shows the 10 largest operating businesses owned by the Fund. A few minor adjustments were made. Close Brothers has a July year end so I used estimates for the years ending July 2021 and 2022 (as I did for Microsoft in the preceding table which has a June YE). All earnings estimates are based on analysts' mean consensus estimates of GAAP net profits available on Bloomberg. For Neurones and GTT which both have significant net cash on their balance sheets, I used enterprise value derived by deducting cash from market cap which we think gives a better valuation indicator. For these European companies, I use the reporting currency of each.

Company	Market cap (bn)	Est 2020 profit (bn)	2020 P/E	Est 2021 profit (bn)	2021 P/E
Yara Int'l	$11.1	0.64	17	0.90	12
Sberbank	$78.2	9.6	8	12.1	6
NN Group	€11.7	1.26	9	1.45	8
Mytilineos	€1.70	0.13	13	0.17	10
Close Brothers	£2.08	0.13	16	0.17	12
Standard Chart	$20.1	1.4	14	2.0	10
VIG	€2.66	0.23	12	0.34	8
GTT	€2.74	0.20	14	0.15	18
Neurones	€0.34	0.029	12	0.031	11
Gazprom Neft	$20.3	1.1	18	2.4	8

We currently have the choice of buying a basket of glamorous technology companies with seemingly very high growth prospects or a basket of European companies selling on average at less than a quarter the valuation. Our sense is that the former basket may be less of a sure bet than many are counting on for a couple of reasons. The first is that technology changes rapidly and it is hard to say where these companies will be in 10 years. Take a look at this fascinating short video of changes in the most popular websites since 1993 at https://www.visualcapitalist.com/most-popular-websites-since-1993/. The second reason is that there are increasing signs of regulatory threats to the dominance and anti-competitive behavior of many companies in the first table.

As far as the second basket is concerned, these are not a collection of weak businesses operating in sunset industries. While one or two of them may falter during the next 10 years, we are confident that in aggregate, the profits they generate are likely to be significantly higher than they are today. In the interim, we are likely to collect large dividends paid by these companies, and in some cases, we think they are likely to have fewer shares outstanding 10 years from now as they use some of their free cash flow to repurchase shares. On average, we are paying only 10 times this year's estimated earnings for these businesses which we think is a bargain.

In a client newsletter written on 1st May 2003, I made a similar comparison. Back then, I wrote:

"Last month, as the war in Iraq concluded, European markets rebounded strongly. The NAV per share of OAM European Value Fund increased by nearly 10% to US$9.89 per share. As an aside, this shows the importance of clients not panicking at the bottom. If a client redeemed his shares in OAM European Value Fund and placed the proceeds in a bank certificate of deposit, how long would it take them to earn a 10% return? Even after a 10% rebound, the holdings in OAM European Value Fund remain very undervalued. It is interesting to note that the entire market capitalisation of Germany, Europe's largest economy, is equivalent to the market capitalisation of GE and Microsoft. Another interesting observation is that the combined market capitalisations of all German, Italian and Benelux companies is the same as the market capitalisation of GE, Microsoft, Walmart, Pfizer, Exxon and Citigroup. The combined GDP of these countries is about $5 trillion which is about half the size of the US economy. Sure, some will argue that the companies that I selected are global companies. So are Royal Dutch Shell, Telecom Italia, Deutsche Telecom, DaimlerChrysler, Unilever, ING, Bayer, BASF, Heineken, Fortis, Volkswagen, BMW and Allianz."

This is what happened over the next 10 years.

Investment	Total return inc dividends	Annual return: 30/4/03-30/4/13
OAM European Value Fund	260%	13.7%
Microsoft	70%	5.5%
General Electric	7%	0.7%
WalMart	66%	5.2%
Pfizer	39%	3.3%
Exxon	214%	12.1%
Citigroup	-85%	-17.2%

<u>Move to a more concentrated portfolio</u>

During the past year, we sold 8 holdings in which we either lost confidence in the company's directors and senior management's ability to add value for shareholders, or where we felt that the company's share price had risen to a level where the discount to our estimate of intrinsic value was no longer large enough to warrant its continued inclusion in the portfolio.

The Fund's directors also wrote down the value of an unlisted holding Terra Catalyst Fund (TCF) to zero. TCF is a closed-end fund that owned a portfolio of European commercial property investments which it sold over time, distributing the proceeds to shareholders. We knew the manager well and had confidence in their ability to extract value from the portfolio. The remaining assets in the portfolio are a collection of commercial properties located mainly in northern Italy but the loan to value ratio on these remaining investments is high and, with the interest clock ticking, it looks unlikely that the equity holders will recover any further value. Hence the write-down decision by the Fund's directors. This resulted in a loss last year on this investment of $0.5 million and a loss of $2 million over the life of the investment.

I have written extensively in the past about Spice Private Equity and Raven Property, and expressed our frustration at various corporate governance issues and the way in which each of these closed-end funds were run. During the year, each of them made another infuriating move and we decided to exit both. This resulted in a loss of $0.5 million during the year on our investment in Raven and a loss of just over $1 million over the life of the investment. In the case of Spice, we lost $2 million last year and $3 million over the life of this investment.

Several years ago, we invested in Q-Free, a Norwegian company that was one of the world leaders in electronic road pricing through either free flowing tolls, congestion charging, or road user charging. A while later, we also invested in their principal competitor, Kapsch in Austria. We thought at the time that road user pricing and electronic tolling would take off globally, but we were undecided on which firm would dominate the market. It seemed a workable solution to traffic woes as I witnessed many times in Singapore and even in central London, whilst it would help government finances at the same time. I went to Trondheim near the Arctic Circle to spend a day with Q-Free to better understand their business. The industry never developed as we anticipated so we sold both holdings early last year, losing just over $2 million over the life of both investments.

Realised gains on four investments more than offset losses on investments that did not work out as planned. Their share prices rose to a level where we felt that the Fund would be better off deploying the proceeds elsewhere. We sold our remaining holding in Bonheur for $7.5 million, generating a profit over the life of that investment of about $7 million. Three years ago, I wrote about Bonheur in my Chairman's statement, concluding that "the sum of the parts is over NOK 10 billion and Bonheur is valued at a 64% discount to its estimated NAV". At the time, Bonheur's share price was around NOK 90 and its NAV/share was around NOK 250. Since then, its NAV/share increased to around NOK 300 and we sold the remainder of our shares early last year at an average price of more than NOK 200. The discount to NAV narrowed principally because Bonheur came to be viewed as a renewable energy play and more analysts started following the company. When we invested, only one analyst followed the company sporadically. We sold our shares for three reasons: (i) the discount to NAV narrowed to around 30% which was below the long-term historic discount to NAV; (ii) we feared a negative impact on their largest business (Scottish wind farms) from a sharp decline in UK electricity prices which are closely correlated to the price of natural gas; and (iii) their relatively small cruise ship business, Fred Olsen Cruises, would be very negatively impacted by Covid.

Our other big sale last year was Italmobiliare. We owned shares in this Italian family holding company in the past and sold it in 2016 for a profit of more than $6 million. In January 2019, 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 shares in 2016. In February last year, I met with the family and senior management of the company in Milan, just as Covid was starting to spread in Italy. The holding company has transformed itself from being primarily exposed to cement production globally into a private equity investor in Italian businesses following the sale of its controlling shareholding in Italcementi to HeidelbergCement. Italmobiliare still has a small shareholding in HeidelbergCement but the majority of its NAV is accounted for by shareholdings in unlisted Italian businesses. Whilst we very much like the quality of management and its portfolio of businesses, after Italy became ground zero in Europe for Covid, we felt that their Italian businesses would be affected to different degrees. Since the Italmobiliare share price hardly moved during the short bear market that ensued, we sold our entire investment in March and April as we felt there were better opportunities elsewhere. We sold our shares for more than $7 million, realising a $1.5 million gain or about a 25% return in little more than a one year holding period, largely due to the share price discount to NAV narrowing from more than 40% to less than 30%.

Last year, we also sold a small holding in ASTM, another family-controlled Italian holding company. We have a similar history to Italmobiliare with ASTM. In 2013-15, we bought shares in ASTM at a more than 50% discount to NAV when the share price was around €10. In late 2017/early 2018, we sold our shares at an average price of nearly €25 when the discount to NAV narrowed to around 20%, realising a gain of $8 million. In late 2018, the share price dropped and we invested $2.5 million in ASTM this time at an average cost of €16.50. We sold half these shares in the summer of 2019 and the balance this past summer, realising a return of nearly 30% over an average holding period of not much more than a year.

Finally, we sold the remainder of our shares in Maersk and its spin-off, Drillco, realising a gain of about $3 million over our holding period. We sold our shares because Maersk was trading at around book value and we felt there were better opportunities available.

Our 5 largest holdings

Following these portfolio sales and a few additions to some of our existing holdings plus the initiation of two small holdings, the Fund's portfolio is largely concentrated in 16 holdings that make up 70% of the Fund's NAV. Five of these holdings are worth $13-21 million, each representing 6-9% of NAV; three are worth $10-12 million, each representing 4-5% of NAV; and eight are worth $5-8 million, each representing 2-3.5% of NAV. The largest holdings are: Wilh Wilhelmsen, Yara International, Sberbank, NN Group, and Baker Steel Resources Investment Trust. I discussed each of these holdings at length in last year's Chairman's statement so I will only highlight changes that took place during the year.

Wilh Wilhelmsen is the world's largest provider of shipping and logistics services for the global auto industry. They also provide similar services for what is known in the trade as "high and heavy", such as large pieces of agricultural equipment, boats, large generators, and defence equipment. As the world entered lockdown, car sales fell off a cliff and Wilhelmsen was significantly impacted. In the early stages of lockdown, we had a long call with the CFO of its largest subsidiary, Wallenius Wilhelmsen which itself is listed. This is a USD-based business. Between January 2018 and March 2020, Wallenius Wilhelmsen's share price in USD fell nearly 90%. It was being priced as if it would be forced to have a large dilutive rights issue in order to survive. After speaking to the CFO and doing our own analysis, we judged such a scenario as highly unlikely given the strength of its balance sheet, maturity profile of its debt, cash position, and its quick reduction of fixed costs to reflect the changed environment. In April, we invested nearly $2 million in the company's shares (which we treat for portfolio purposes as part of our Wilhelmsen investment). The shares almost tripled since we bought them, but we estimated at the time of purchase that we ought to make about 5X on this investment once their business normalizes. If one of their competitors is unable to survive the current turmoil, this could be an opportunity for Wallenius Wilhelmsen. Meanwhile, our larger investment in Wilh Wilhelmsen saw its discount to NAV widen during the year beyond 60%. The near-term outlook is not positive, but there are few new car carriers being built, and the shares look extraordinarily undervalued. We think this is a high quality, family-controlled investment holding company. To get a sense of what they do, this Mighty Ships documentary available on You Tube is informative: https://www.youtube.com/watch?v=bFSl7JsBReo. The value of our holdings in Wilh Wilhelmsen and Wallenius Wilhelmsen now makes this the Fund's largest holding. We think that both companies are extraordinarily undervalued.

The principal change at Yara was that it agreed to sell its 25% shareholding in Qatar Fertiliser Company (QAFCO) to its JV partner, Qatar Petroleum, for US$1 billion. In August it started a buyback programme to repurchase 5% of its shares with part of the QAFCO proceeds. We view this as a good capital allocation decision. Meanwhile, we are awaiting an increase in fertiliser prices which we think is inevitable.

Sberbank was hurt last year by Covid, but it remains a highly profitable bank. We were expecting the bank to earn almost a trillion roubles in net profit this year, but an increase in bad debt provisioning and a slowdown in loan growth are likely to reduce this to a still very respectable 750 billion roubles. We now expect Sberbank to reach this milestone of earning a trillion roubles in net profit in 2022. Given that the bank has said that it will pay out 50% of its net profit as dividends and the bank is currently valued at less than 6 trillion roubles, we think the shares are far too cheap. While we wait for them to be revalued, we should generate an attractive yield from holding them. The other potential source of return could be a revaluation of the rouble which fell from 60 to the USD to 75 last year, largely in reaction to the steep fall in oil and gas prices. The OECD estimates purchasing power parity at 25 and the Big Mac index estimates it at 24. In other words, you can buy 3 Big Macs in Russia for the price of 1 in the US. This makes it the most undervalued currency in the world on a purchasing power parity basis. Russia runs one of the most fiscally conservative governments in the world. Their external debt is less than 15% of GDP and this is fully matched by its foreign exchange reserves, so if they wished, they could pay all their external debt at once. Its total external and domestic debt is just 18% of GDP, a huge outlier in today's over-indebted world.

NN Group has an extremely conservative balance sheet, one of the highest Solvency ratios in the industry, and they generate annual net income of about €1.3 billion, most of which is free cash flow that they have been using to pay generous dividends, repurchase shares, and acquire smaller Benelux life insurance and pension providers to further consolidate the industry. They were therefore well prepared to deal with an unexpected event like Covid. Elliott Advisors, a large US activist investment manager took a stake in NN Group and is pushing for changes at the company that they think should lead to large uplift in valuation of the company's shares. We do not expect NN to remain valued at an 11% free cash flow yield.

Baker Steel Resources Investment Trust is a closed-end fund that owns a portfolio of mostly early stage, unlisted mining assets. Last year, its share price increased by 35%, resulting in its discount to NAV narrowing to almost nothing. Whilst its discount to NAV is very narrow by historic standards, we anticipate revaluation of some of their largest investments that should increase its NAV/share by around a third to around 100p in the next six months. We trimmed our position towards year end and also anticipate that a tender offer may be made for shares which would provide us an opportunity to reduce our holding further at what we think should be a higher price than today. One of the things that we particularly like about the Trust is that they are building up a stream of income by investing in cash generative projects and retaining royalty streams from projects in which they have invested. For instance, they own a royalty on the Prognoz silver mine reserve in Russia which is being developed by Polymetal, a major miner of precious metals listed in London. This royalty is currently valued at $11.5 million, but based on our discussions with the manager, we think this could produce a royalty stream to the Trust of about $4 million net of tax annually for about 20 years starting in 2025, assuming a silver price of $25/ounce.

The next 11 large holdings

Hansa Trust and Ocean Wilsons, its listed subsidiary, is the largest of the Fund's next tier of large holdings. During the year, the extraordinarily wide discount to NAV at which the shares trade narrowed slightly. William Salomon, who along with his family, is the controlling shareholder of Hansa bought another 3.25

million Hansa ordinary and A shares in market last year for £5.5 million. He clearly thinks the shares are extremely undervalued. In addition, its listed Brazilian ports business, Wilson Sons, has become less valuable due to the depreciation of the Brazilian real which fell from 4 to the USD to 5.2 last year. Our sense is that Hansa is likely to sell this business sometime this decade and simplify the structure of Hansa Trust/Ocean Wilsons/Wilsons Sons which will probably be the catalyst for a re-rating. Now however is not the time for such a transaction and restructuring while Brazil is so deeply out of favour with investors.

In May, we had a long and very useful call with two members of senior management at Mytilineos. We had a moderately sized holding in Mytilineos for a number of years, but following that detailed call, this became a higher conviction holding for us. We bought about 250,000 shares for $2 million, increasing our holding to 800,000 shares. Mytilineos is a Greek family-controlled holding company with a strong track record of creating value for shareholders. During the past 10 years when Greece endured an economic depression and its stock market fell about 70%, Mytilineos generated compound annual returns for its shareholders of 13% per annum. The Group consists of four divisions: bauxite mining and aluminium production, electricity power generation, renewable & storage development (RSD), and sustainable engineering solutions (SES). In 2004, Mytilineos bought Aluminium of Greece (AoG) for about €70 million from Pechiney after the French company was acquired by Alcan. This proved to be a very good purchase. Shortly thereafter, the price of aluminium rose sharply and in the first year after purchasing the business, Mytilineos generated EBITDA equivalent to what they paid for the entire business. AoG is the leading producer of refined alumina and primary aluminium in South-East Europe, the second largest bauxite producer in Europe, and one of the lowest cost producers of alumina and aluminium globally. It owns a large open pit bauxite mine in close proximity to its refinery; port facilities for incoming raw materials and outgoing finished products; a low cost power generating plant onsite; produces its own anodes at low cost; and complete vertical integration that allows it to remain near the bottom of the cost curve globally. AoG has already returned many times its purchase price in dividends and capital distributions to Mytilineos and the business is worth about 15 times more today than what they paid for it 16 years ago.

The electricity division is the largest independent power producer in Greece and its wholly owned subsidiary, Protergia, is the lowest cost producer in the country, and its 65%-owned Korinthos subsidiary is the second lowest cost producer in the country. The Group has a very large CCGT plant under construction that is expected to be the most efficient CCGT electricity plant in Europe once it is commissioned at the end of this year. This should be a large contributor to Group profits and we expect the Group's EPS to increase by around 75% over the next two years, in large part due to the new CCGT plant in Viotia. Mytilineos has a few key competitive advantages in this division, namely its expertise in building CCGT plants, and its ability to switch between Russian gas delivered by pipeline or LNG delivered by ship, whichever is cheaper at the time.

The RSD division builds solar parks, wind farms and battery storage solutions globally, and its order book is growing strongly as renewable energy plays an increasing role. The SES division is a world leader in the construction of CCGT and gas turbine electricity power plants. This expertise has been invaluable in helping the Group grow and become more efficient in its other divisions. One of our concerns with this part of the Group was its large accounts receivable which is the nature of those businesses, but we spent a lot of time last year better understanding these risks with valuable input from senior management. We think the RSD division has particularly bright growth prospects given the huge focus on ESG globally and might possibly be worth a significant portion of the Group's current total market value within a few years.

Close Brothers had a difficult year as the UK economy endured the worst recession in more than a century. The loan book of their principal banking business did not grow last year and they nearly quadrupled their provisioning for bad debt due to the forbearance measures offered to their customers to enable them to get through the downturn. Most of their loans are short-term with an average term of not much more than a year and are usually fully collateralised so we expect bad debt provisioning to fall off quickly as the economy recovers. In contrast to most banks, they are not reliant on short-term funding and a positively sloping yield curve as they lend short and borrow long. Their lending is predominantly to small and medium sized UK businesses. They know their customers well and work with them to enable repayment through short-term cash flow problems. In return for providing this valuable service, Close Brothers continues to earn average interest margins of around 8%. Over the past 10 years, the Group averaged a ROE of 14% which would be the envy of most Western banks. The shares trade at around 8 times normalised earnings which is a large discount to what we think they are worth. Meanwhile, we collect an attractive dividend yield that is not subject to withholding tax.

Standard Chartered is primarily an emerging markets bank operating in Asia ex Japan and Africa and the Middle East. We invested in the bank because it was a turnaround candidate with an excellent pedigree; it operates in faster growing banking markets with positive real interest rates; and because they recruited Bill Winters as CEO and we regard him as one of the best bankers globally (read Fool's Gold by Gillian Tett to get some understanding of the man). Since then, we have followed the turnaround which was slower to unfold than expected, and supplemented it with anecdotal experience shared with us by fund managers and clients in Asia. Whilst we have very high regard for Winters, we had less understanding of his lieutenants in Asia, Africa and the Middle East. It was therefore reassuring when we heard time and again from our contacts that the "dead wood" and poor lenders were replaced in key locations. Our confidence was further boosted by a resumption in the bank's dividend and the repurchase of its shares in the market.

Last year, Standard Chartered was one of our worse performers in the portfolio. As Warren Buffett says, during every crisis, you find out who has been swimming naked. The bank took bad debt provisions of nearly $2 billion during the first three quarters of last year. These bad debts have somewhat shaken our confidence in Standard Chartered's risk control. It is almost impossible to analyze a bank's loan book: one needs to rely on the ability of its bankers to make intelligent loans. In spite of the large loan loss provision, Standard Chartered is still expected to earn $1.4 billion and a 3.5% return on tangible equity (ROTE). The bank's recovery plan is to increase ROTE in the next few years to 10%. Tangible equity is currently around $12.50/share. Standard Chartered's share price of US$6.50 is close to the lowest in 25 years. We believe it is priced in anticipation of another rights issue which we think is very unlikely. If Standard Chartered can avoid more naked swimmers, and assuming Winters can reach his target in a few years, the bank's shares ought to trade at book value, particularly given that this was a bank whose shares consistently traded at 2-3 times book value from 1993-2007. That happy outcome would lead to shareholders tripling their money from here over a relatively short period, after factoring in the effect of dividends and share buybacks.

During the year, the Fund received GBL shares in exchange for its shares in Pargesa, the holding company through which the Frere family in Belgium and the Desmarais family in Canada controlled GBL. Many years ago, the Fund owned shares in CNP which was another holding company in the same chain of control. We always invested in the company trading at the widest look-through discount to NAV in the chain of control which conveniently also aligned us most closely with the controlling families. The chain of control has now been eliminated, giving the Fund an uplift each time the company in the chain that we owned was absorbed, so that there is now just one holding company, GBL. We still think that GBL is undervalued. It owns a portfolio of large and medium-sized listed European companies such as SGS, adidas, Pernod Richard and Lafarge Holcim, and a private equity portfolio. Over the past 5, 10 and 20 years, it has outperformed the Fund's European equity index benchmark so we think it ought to trade at close to NAV. Currently it trades at a 33% discount to NAV.

Vienna Insurance Group (VIG) share price was unfairly punished last year, falling nearly 20%. Several company insiders bought more shares. We think that for a well-run insurance company with leading market positions throughout Eastern Europe where insurance penetration is increasing, the shares are far too cheap on less than 8 times this year's estimated earnings, less than half book value, and a more than 5% dividend yield.

Sonae is a family-controlled holding company. Its share price fell by more than 25% last year, resulting in the shares trading at what we think is an unwarrantedly wide discount to estimated NAV in the mid 60's. Its largest asset, accounting for over half the group's value, is its ownership of Sonae MC, the leading hypermarket and supermarket chain in Portugal, with best-in-class operations. Its next largest investment, accounting for around 12% of the group's value, is its 70% shareholding in Sonae Sierra, a joint venture with Grosvenor Group, which owns shopping centres predominantly in Iberia. Sonae MC continues to perform very well, Sonae Sierra's shopping centres have had to offer tenants rent suspensions and reductions.

Gazprom Neft is an integrated Russian oil company with GDRs listed in London. It is majority-owned by Gazprom, the largest natural gas producer in the world, and we think it is better run than its parent as evidenced by its historically higher return on equity. As with all oil companies, it is highly geared to the price of oil, but as a low cost producer, it remained solidly profitable last year. In an environment of $60-80 per barrel oil prices, the company earns about $6 billion per annum, so we think a valuation of $20 billion for the company is way too low. While we wait to see if oil prices recover, we expect to collect a handsome dividend yielding about 6.5% this year, and rising from there.

GTT is the world's leading designer and licensor of containment systems for the transport and storage of LNG. It is an excellent capital-light business which we think has strong growth potential, particularly if LNG as a fuel takes off in the shipping industry. Its shares trade on a higher P/E than most of the Fund's holdings so we sold another $2.2 million of our holding early last year and have now more than recouped our original cost. However, on a mid-teens P/E multiple, we think the company still warrants being a significant holding in the Fund.

Neurones is a French IT services business with high recurring revenues which make its earnings resilient and relatively predictable. Neurones motivates its managers by allowing them to hold minority interests in the Neurones businesses they manage. They are encouraged to build their own businesses in which Neurones will partner. In addition, management owns over 70% of Neurones shares with virtually no insider selling since the IPO in 2000. Luc de Chammard, the Founder and CEO, is fanatical about his business and is also a good allocator of capital. Over the past 10 years, Neurones shareholders have generated a 13% compound annual return. We bought another $0.5 million of shares last year as we very much like the company, its leadership, and think that the shares are undervalued. The company had net cash at the end of June of €229 million and its market capitalisation of €570 million values the company on an ex-cash basis of only 12 times last year's estimated net income of €30 million.

CIR (formerly Cofide) currently trades at a discount of 42% to NAV. Last month, Camilla and I participated in a call with the CEO, Rodolfo De Benedetti. Last year, CIR completed the sale of its 44% shareholding in GEDI, one of Italy's leading newspaper publishers, to the Agnelli family holding company, Exor, for about €100 million. This, together with completion of the CIR/Cofide merger simplifies this family holding company which now consists 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, plus some commercial real estate in central Milan. CIR has been an aggressive repurchaser of its own shares in recent years. Share repurchases or a tender offer at the current share price are highly accretive to CIR/Cofide's NAV per share. We think that CIR is likely to sell its assets other than KOS and ultimately become a mono-holding company for KOS or possibly merge with KOS if it buys the rest of it from their joint venture private equity partner. If the latter happens, the large holding company discount ought to disappear. We think this is the ultimate end game, but it will probably take 3-5 years to execute.

De-listings

During the year, our holdings in Ashmore Global Opportunities (AGOL), the two Better Capital cells, and Management Consultancy Group were de-listed in London to reduce expenses. All four listed companies have been selling their assets on an orderly basis and making distributions to shareholders. They each reached a point where they decided that it was not worth the expense of maintaining a listing. When a company de-lists, there is forced selling by some shareholders who cannot continue to own shares in an unlisted company. The Fund is allowed to have up to 10% of its assets invested in unlisted securities so we took advantage of the share price weakness in the two Better Capital cells to add about $1 million to our investment in them alongside the founder, Jon Moulton who did the same. Net of the nearly $0.5 million distribution we received from AGOL, the de-listings resulted in a more than halving of the value of these four holdings from $11 million to $5 million at the time of de-listing, which is where we carry them for valuation purposes.

Based on our conversations with managers, directors and major shareholders of these four holdings, we think that we are likely to see significant uplifts as the underlying assets of these holdings are sold. Most of the proceeds should result from the sale of five unlisted businesses: the Jaguar electricity generating plant owned by AGOL; m-Hance and Omnico software businesses owned by the Better Capital 2009 cell; Everest windows and conservatories business owned by the Better Capital 2012 cell; and Alexander Proudfoot management consultancy owned by Management Consultancy Group. Our best guess is that the Fund is likely to receive around $18 million over the next few years as these holdings are sold and distributions are made to shareholders, but there is a high degree of uncertainty in this estimate.

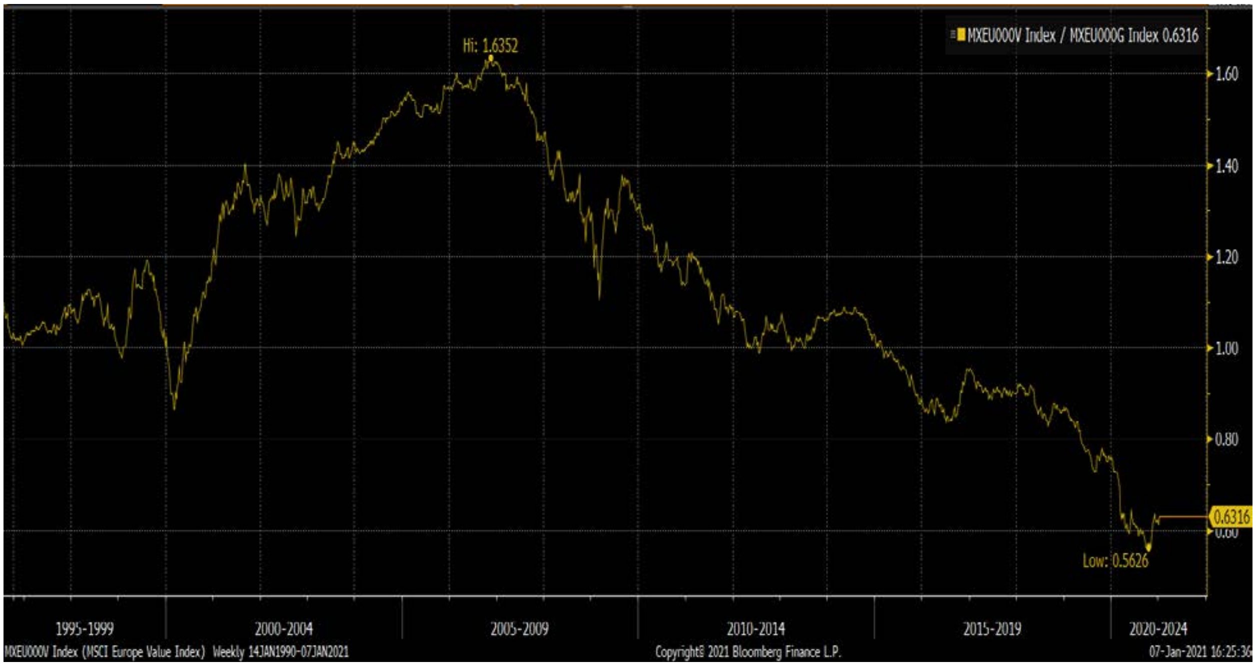
Inflation risk

We tend not to spend too much time prognosticating on or forecasting the macroeconomic outlook. However, we do consider risks that might affect the long-term health of the Fund's portfolio. In last year's Chairman's statement, I discussed liquidity risk. This year, I wish to discuss inflation risk. Covid has accelerated the growth in money supply and the increase in government debt as governments and central banks around the world try to offset the massive economic contraction caused by the pandemic and ensuing lockdowns. Broad money growth in the OECD is at a 30-year high of 18%. World non-financial debt to GDP is at a record high. What makes the past year's actions by governments different to Quantitative Easing which was non-inflationary, other than in causing the price of financial assets to increase, is the scale and the way in which governments and central banks are using commercial banks to increase money supply. With government guarantees backstopping an increasing proportion of commercial bank lending, a far greater proportion of new money created is going into the real economy to be spent rather than on to banks' balance sheets to be invested in financial assets. We think this increases the risk of inflation which we see as the only viable way out of the immense build-up of debt, together with financial repression which keeps real interest rates negative in the developed world where debt is highest. This happened after World War II when nominal GDP in the developed world grew faster than debt, and we think the same may happen again. For a more detailed analysis, I suggest reading Charles Goodhart's new book "The Great Demographic Reversal – Ageing Societies, Waning Inequality, and an Inflation Revival". It is quite technical in parts but makes a convincing argument why inflation is likely to return, against all expectations.

If inflation and nominal GDP growth increase, we think the massive premium being paid by investors today for growth stocks which we do not own is likely to shrink, and value investing will likely make a resurgence after a record 14-year stretch of underperforming growth stocks. The obvious beneficiaries in such an environment would be precious metals and commodities. The Fund has exposure to precious metals through Baker Steel and to agricultural commodities through Yara and a trio of London and Luxembourg listed palm oil producers. We think several of the Fund's larger holdings would benefit more subtly from higher inflation and nominal growth. The growth in new supply in certain industries to which we are exposed is constrained and an upside demand or pricing shock could have massive positive implications for these holdings. Since 2016, the growth in global capacity of car carriers has been suppressed and over the next few years, capacity is expected to shrink with low order books and scrapping, exacerbated by the drop in demand last year and tighter environmental rules for ship emissions. A surprise in rising demand could do for charter rates in the car carrier industry what we have seen in the container shipping industry. That would be extremely bullish for the Fund's largest holding, Wilhelmsen. In nitrogen fertiliser, an average of over 5 million tonnes of new urea capacity was added annually between 2015 and 2018 globally (ex China) whereas annual consumption growth was around 3-3.5 million tonnes. This led to overcapacity and weak pricing. New urea capacity coming on stream from 2020-2024 is projected to average about 2.5 million tonnes annually (ex China). A rise in urea prices from around $250/tonne would be very positive for Yara's profitability. Over the past 15 years, urea prices fluctuated between $200 and $800/tonne.

Outlook

Since late 2006, value stocks underperformed growth stocks pretty consistently and by a wide margin. Over the past 100 years, in all major stock markets in the world, empirical studies have shown that value has historically beat growth, and by a sufficiently wide margin to be worth exploiting. However, over some uncomfortably long periods, the inverse is true. The past 14 years is by far the longest stretch of underperformance experienced by value stocks in history, and last year was the worst single year for value versus growth. We therefore feel that when factoring in the hurricane of a headwind we faced, the Fund still managed to earn a respectable return on an absolute basis over this span, and to only barely lag its benchmark last year. In early November, on the day that the first very positive vaccine results were announced, we were given the first glimmer of hope since the pandemic started that there might be some return to normality in the next year. The money-printing that resulted once the pandemic started increases the odds of a rise in inflation and bond yields. These two factors give us some confidence that a resurgence of value investing has just begun. November was the best month in the Fund's history with its NAV/share up over 18%. If we are right, then the Fund's prospects ought to be very positive as we are only in the very early stages of a resurgence in value investing as the chart of the MSCI Europe Value Index relative to the MSCI Europe Growth Index below illustrates. A rotation to value is likely to be very disruptive to equity markets at some stage, and we anticipate a rocky, but ultimately rewarding road ahead.



Larger than usual redemptions

The Fund ended the year with net assets of $230 million. Last year, the Fund had $1.5 million in subscriptions and nearly $27 million in redemptions. This is the first time in the Fund's history that redemptions exceeded 10% of net assets. There were two notable reasons. In late April, the Cayman Islands Government amended the pension regulations to allow private sector plan contributors to withdraw funds from their pension plans. This resulted in redemptions from the Fund by two domestic pension plans totalling nearly $7 million. The other reason is that a longstanding family of clients decided late last year to move their structures from Cayman where they were domiciled for the past 20 years or so to the US to benefit from the latter's lighter regulatory touch. The move gave them no choice but to redeem from our funds. Their redemptions last year totaled $8.5 million and we are anticipating a further $13 million in redemptions from the Fund by their companies in the next month or two. The Fund has just over $18.5 million in cash currently available, some of which we raised shortly after we were first advised of the pending move by our longstanding clients.

Camilla co-manages the Fund with me. We are unable, or should I say unwilling to travel, but our style of long-term investing where we get to know the companies in which we invest very well has made the transition to video calls with senior management more or less seamless. Camilla and I have video calls almost every week, and some weeks, we have several calls. In a sense, we think that we are getting a better understanding of our companies by doing our analysis this way, and certainly on a more timely basis. However, there is no substitute to meeting someone in person and viewing assets. We look forward to the day when we can travel without fear of getting Covid or having to quarantine.

There were no changes to the OAM team during the year. Natalie, Sue and Naomi were able to work from home for part of the time that Cayman was in "lockdown". Everyone is set up with their own encrypted company laptop to work seamlessly from home. During the year, we migrated our e-mails to the cloud and this year, we will be migrating our data to the cloud. Given the technical nature of this change and the critical importance of keeping client data safe, we engaged experienced technology firms that we have used in the past to do this migration. Our data will be hosted using Microsoft Azure in Canada. Regrettably, Cayman continues to face a torrent of new regulations and compliance rules which result in Sue spending all her time dealing with the constantly changing landscape, and Natalie and Naomi spending an increasing proportion of their time on such matters rather than more productive endeavours.

The directors and their wives in aggregate now own more than 15% of the Fund's shares and entities which they manage or of which they are a director own an additional 4.5% of the Fund. Our interests are very clearly aligned with yours.

Desmond Kinch, CFA
Chairman