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OAM European Value Fund

12th January, 2023

Dear Fellow Shareholder,

Last year, the Fund's NAV/share declined by 13.0% compared to a 19.2% decline in its benchmark, the MSCI Europe (US$) index. That is not an enticing opening sentence for our 20th anniversary Chairman's statement to shareholders. Please read on. It gets better!

A more meaningful scorecard is the Fund's track record over its 20 years of existence which covers multiple market cycles during which the Fund's NAV/share increased nearly sixfold, compounding at 9.3% per annum. By comparison, the Fund's benchmark increased by 92% or 3.3% 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.

More than the entire decline last year was due to the weakness of European currencies and the write-down to zero of the Fund's exposure to four companies operating in Russia. The three most important currencies for the Fund are the euro, sterling and the Norwegian krone which fell by 6%, 11% and 11% respectively last year against the US dollar. We do not usually spend much time thinking about or trying to predict currency movements, but the extent of last year's currency moves, particularly at their lows in late September, puts these exchange rates at levels that we think will prove anomalous in the next five years. We started last year with about 10% of the Fund's assets invested in four high quality businesses operating in Russia. Whilst we acknowledged the risk of Russia invading Ukraine, we did not think it would happen, but we took the precaution of trimming the Fund's Russian exposure in 2021 when it reached 14% of the Fund's net assets.

Excluding our Russian misadventure and currency losses, the Fund's portfolio of companies performed strongly, appreciating slightly in local currency terms in what was a very difficult year for equity markets. Our company analysis and stock selection which we regard as our forte was very good. Value investing worked for us last year, and the huge dichotomy between the valuation of the cheapest and most expensive parts of European equity markets is still close to an extreme, so the outperformance of undervalued equities looks like it has a long way to run. The chart at the top of the following page shows the MSCI Europe Value index relative to the MSCI Europe Growth index. It suggests that we still have a long way to go with respect to the recovery of value equities which is where the Fund's focus lies.

The strong rebound in European currencies since the end of September, in spite of continued negative news from Europe, suggests that there are tentative signs of a bottom (or peak for the US dollar), and this combined with no downside but meaningful potential upside from our Russian investments, leads us to be hopeful that these two strong headwinds in our face last year may provide us with a tailwind in coming years.

Ben's and Warren's Mr. Market

I consider *The Intelligent Investor* by Benjamin Graham to be the most important book about investment analysis ever written. Warren Buffett, the world's most successful investor of the past 70 years, agrees. Graham was Buffett's mentor. After reading *The Intelligent Investor*, Buffett enrolled at Columbia Business School in New York where Ben Graham taught securities analysis. Buffett says that Chapters 8 and 20 are the two most important chapters of Graham's book. At the end of Chapter 8, Graham introduces the parable of a fellow named Mr. Market. Here is Warren Buffett discussing Mr. Market in the 1987 Berkshire Hathaway annual report following the major stock market crash in October that year.

"Ben Graham, my friend and teacher, long ago described the mental attitude toward market fluctuations that I believe to be most conducive to investment success. He said that you should imagine market quotations as coming from a remarkably accommodating fellow named Mr. Market who is your partner in a private business. Without fail, Mr. Market appears daily and names a price at which he will either buy your interest or sell you his. Even though the business that the two of you own may have economic characteristics that are stable, Mr. Market's quotations will be anything but. For, sad to say, the poor fellow has incurable emotional problems. At times he feels euphoric and can see only the favourable factors affecting the business. When in that mood, he names a very high buy-sell price because he fears that you will snap up his interest and rob him of imminent gains. At other times he is depressed and can see nothing but trouble ahead for both the business and the world. On these occasions he will name a very low price, since he is terrified that you will unload your interest on him.

Mr. Market has another endearing characteristic: he doesn't mind being ignored. If his quotation is uninteresting to you today, he will be back with a new one tomorrow. Transactions are strictly at your option. Under these conditions, the more manic-depressive his behaviour, the better for you. But, like Cinderella at the ball, you must heed one warning or everything will turn into pumpkins and mice: Mr. Market is there to serve you, not to guide you. It is his pocketbook, not his wisdom, that you will find useful. If he shows up some day in a particularly foolish mood, you are free to ignore him or to take advantage of him, but it will be disastrous if you fall under his influence. Indeed, if you aren't certain that you understand and can value your business far better than Mr. Market, you don't belong in the game. As they say in poker, "If you've been in the game 30 minutes and you don't know who the patsy is, you're the patsy. ...[A]n investor will succeed by coupling good business judgment with an ability to insulate his thoughts and behaviour from the super-contagious emotions that swirl about the marketplace. In my own efforts to stay insulated, I have found it highly useful to keep Ben's Mr. Market concept firmly in mind."

This is how we like to think about our Fund's investments, and this is how we like our shareholders to think about their investment in the Fund. Ben Graham used A&P, the largest supermarket chain in the US at the time, as an example of how Mr. Market failed to reflect the true value of its business in its share price over a roughly 40-year span in both directions relative to fair value. In the case of the Fund, it is slightly more complicated than valuing a single business. The Fund owns a portfolio of businesses. Furthermore, these businesses have shares that are denominated in European currencies, but the Fund keeps score in terms of its reported NAV per share in US Dollars. Nevertheless, even with these added dimensions, it is possible to apply the concept of Mr. Market to the Fund's portfolio. Think of the Fund as a holding company that owns shares in several businesses that each produce free cash flow to the owners of the holding company. With this in mind, we can estimate whether the Fund's NAV - the price being bid or offered by Mr. Market - is a good reflection of the fair value of the holding company.

Five years ago, the average P/E of the Fund's operating businesses was 16.6. The inverse of that is 6.0%, also known as the earnings yield (E/P). For the companies in which we invested, roughly 100% of reported earnings are converted to free cash flow. Some of this free cash flow is paid out as dividends, some is used to repurchase and cancel shares, and some is reinvested back into the business for future growth. At that time, the yield to maturity of a 10-year US Treasury bond was 2.4%. Which would you rather own: a safe government bond that pays you a fixed 2.4% per annum for 10 years and returns your principal at the end of the term, or a portfolio of businesses that produce a 6.0% free cash flow yield in the first year, but where the annual free cash flow will be volatile depending on the state of business? That will depend on a number of factors, namely: your risk tolerance; your expectations of how volatile the portfolio's annual free cash flow is likely to be; and whether you expect the free cash flow to grow or shrink over time, and how rapidly. The answer for investors in aggregate is known as the equity risk premium (the difference between the risk-free rate and the earnings yield). For the S&P 500 index, it averaged 3-4% over the past 70 years. This was approximately what it was for the Fund's portfolio compared to a 10-year US Treasury bond 5 years ago. It would have been more like 5% compared to a 10-year UK gilt or 5.5% compared to a 10-year German government bond. The Fund's portfolio was therefore more or less fairly valued. Whether your choice of the more risky but higher yielding option would pay off depends on the evolution of free cash flow produced by the portfolio since then … or so it would seem.

It is also slightly more nuanced than that comparison. For instance, the Fund's largest holding at the time was Yara International, the world's largest nitrogen fertiliser company, which is now the Fund's third largest holding. In 2017, Yara earned approximately $2.00 per share (E). Its share price (P) was about

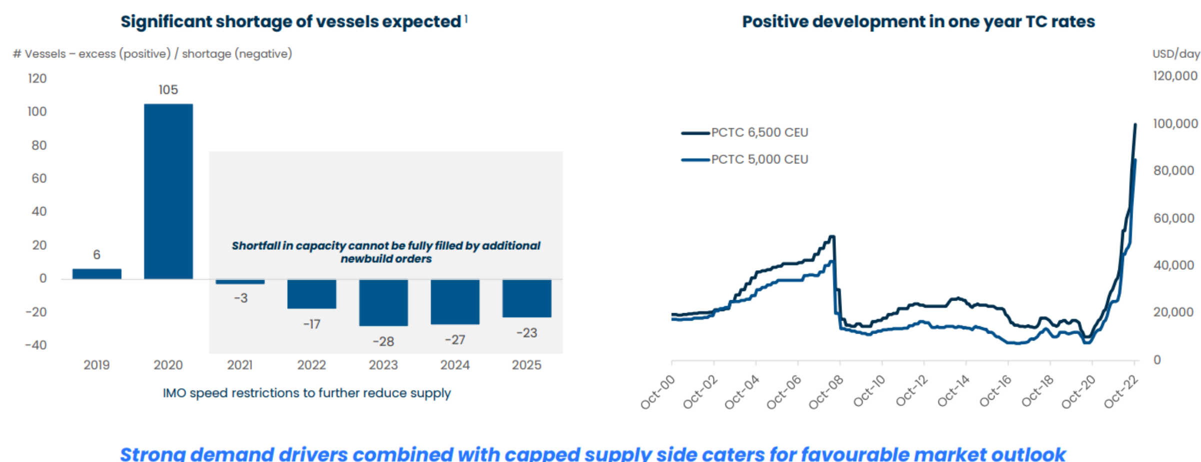
$45, so a P/E of 22.5 inflated the average P/E of the portfolio. However, these were cyclically depressed earnings. We have owned shares in Yara since it was spun off from Norsk Hydro in 2004 so we think that we understand the business well and have a good idea how to value it. It has been a very good investment, generating a compound return of just over 15%/annum in US Dollars over the past 18 ½ years that we have owned it. Five years ago, there was overcapacity of fertiliser production and a surplus that depressed prices. We estimated at the time that average through-the-cycle earnings for the company were around $4 per share so the normalised P/E was around 11 rather than 22.5. In a similar vein, we owned shares in Maersk in 2017, since sold for a nice gain, but in 2017 there was a surplus of container ships so Maersk only earned about $80 per share. Its share price was $1,660 so its P/E of 20.7 increased the average for the portfolio. However, we estimated that through-the cycle earnings for the company were around $200 per share so the normalised P/E was around 8. Changing just these two companies' P/Es to their normalised P/Es lowered the average P/E to 15.1 or increased the earnings yield to 6.6% which would have made the portfolio of companies look on the cheap side of fair value.

What happened to earnings of these companies since then? With a lack of reinvestment by the fertiliser and containership industries since then, surplus capacity changed to tightness and earnings soared. For 2022, Yara is estimated to report earnings of more than $10 per share. For Maersk, the increase in earnings was more spectacular with earnings estimates this year around $1,600 per share. For Maersk, boom is likely to turn to bust as shipyards are now full of orders for new containerships. In Yara's case, the supply of fertiliser is likely to remain tight for at least the next 5 years. We now estimate through-the-cycle earnings for Yara at $6-7 per share. What would fair value be for a well-run company that has returned 15% per annum to shareholders over the past 18 years with these normalised earnings? We think that Mr. Market's current share price of $44 is a gift.

How about the entire portfolio? We estimate that the operating companies in the Fund's portfolio currently trade at an average P/E of 7.9. This is an earnings yield of 12.7%. Compared to the current 10-year US Treasury bond yield to maturity of 3.9%, this implies an equity risk premium of 9%. That is a rare gift. What happened to the portfolio's earnings over the past 5 years? Earnings increased by 166% in euros, growing at 22% per annum over the past 5 years. This is somewhat misleading as some fully-valued holdings were sold and replaced with more undervalued shares; some holdings like Yara and Maersk grew their earnings rapidly from cyclically-depressed levels; and dividends received from the holdings were reinvested. Nevertheless, it provides a good indication of how value grew over the period. Over very long periods of time, investment returns are usually close to earnings growth plus dividends. Whilst the portfolio's earnings (the "E" in P/E) grew very strongly, the Fund's NAV (the "P" in P/E) grew by only 4.9% per annum in euros and by an even more derisory 2.5% per annum over the past 5 years in US dollars. The near halving of the multiple (P/E) applied to the portfolio's earnings is the reason for the large gap between the portfolio's earnings growth and NAV appreciation over the past 5 years. Whilst that outcome for NAV appreciation over the past 5 years is disappointing, it creates an outstanding opportunity for attractive future returns.

In terms of risks that might nullify the apparent bargain on offer, the biggest is a collapse in earnings. We do not think that is likely. Yara International (7.4% of NAV) is likely to see its earnings fall over the next couple of years – by 30-40% according to consensus earnings estimates – but this is likely to be offset by significant earnings increases at some of our other holdings. Mytilineos, our largest holding (8.3% of NAV), is expected to increase its earnings per share (EPS) by 20% over the next two years and Standard Chartered, our sixth largest holding (4.5% of NAV) is expected to increase its EPS by 40% over the same

span. We have 17% of the portfolio invested in the only four listed car carrier companies in Europe (after trimming two of these holdings in the latter part of the year as they hit our diversification limits, raising $9.5 million in proceeds). Wilh Wilhelmsen, one of the four, and currently our second largest investment (8.1% of NAV), is a family holding company, but its largest investment is its shareholding in Wallenius Wilhelmsen. It is currently priced at a 63% discount to the estimated value of its net assets. We expect earnings at the car carrier companies to increase strongly as 3-5 year contracts of affreightment are typically signed with car manufacturers and agricultural and construction equipment manufacturers that need to ship High & Heavy freight. As ships come off charter, new charters are being signed at much higher day rates (see charts below from Gram Car Carriers' recent presentation).



The table below shows current market expectations for the three operating companies' future earnings which we think are likely to be even higher than estimated. The P/NAV estimate shows the ratio of market capitalisation to the estimated second-hand value of each company's ships, net of debt.

		Gram Car Carriers	Hoegh Autoliners	Wallenius Wilhelmsen
P/NAV		0.8	0.6	0.8
Est EBITDA growth (%)	2023	156%	48%	33%
	2024	40%	4%	13%
Est EV/EBITDA	2022	10.4	3.7	4.8
	2023	4.1	2.5	3.6
	2024	2.9	2.4	3.2
Estimated earnings growth	2023	300%	36%	16%
	2024	26%	-16%	-9%
P/E	2022	16.0	4.7	6.2
	2023	4.0	3.5	5.3
	2024	3.2	4.1	5.8
Estimated dividend yield	2022	3%	9%	4%
	2023	13%	12%	9%
	2024	16%	10%	9%

Introducing Mr. F.X. Market

Ben Graham's original Mr. Market has a mercurial cousin, Mr. F.X. Market, who has similar characteristics and offers similar terms to those described by Warren Buffett in his 1987 Letter to Shareholders. We usually do not spend much time trying to predict currency movements, even though they can have a significant impact on our investment returns. This is because making such predictions is notoriously difficult. We have seen the rise and fall of a multitude of currency-trading funds over the past 30 years but cannot think of one currency-trading fund with a superlative long-term track record. However, there is a tendency for currencies in the developed world over time to revert to Purchasing Power Parity (PPP) which is a measure of the foreign exchange rate at which goods are priced the same in both countries. PPP is an estimate of fair value for a currency. When exchange rates stray too far from PPP, it is like a rubber band: when it gets stretched too far, it tends to pull back with force towards the centre.

In June 2001, £1.00 cost $1.38, but in November 2007, £1.00 cost $2.10. In October 2000, €1.00 cost $0.83, but in April 2008, €1.00 cost $1.60. We have difficulty in finding an ex-poste explanation for this large move in exchange rates. However, we did observe that the UK and Europe seemed very expensive in late 2007/early 2008, and in early 2008, the Fund sold forward part of its sterling and euro exposure for US dollars to protect it from the seemingly obvious overvaluation of both currencies. When these forward sales matured, they provided the Fund with significant gains that helped protect the Fund from large currency losses on its sterling and euro denominated equity exposure. This is the only time the Fund has hedged its currency exposure, and in future, currency hedging is only likely to be done at extremes of currency overvaluation.

The Economist calculates PPP using the Big Mac index which suggests that fair value for sterling is $1.58. The OECD calculates it using a basket of goods and estimates it to be $1.44. Based on the OECD estimate for PPP, it declined from about $2.50 in 1977 to about $1.50 in 1995 because of higher inflation in the UK than the US but has been quite stable since then as inflation differentials between the US and UK narrowed to almost zero. The average $:£ rate since 1995, i.e. the period when PPP has been stable around its current level, is $1.56 which is close to the average of the two methods of calculating PPP (see chart below).

For the euro, PPP is $1.27 using the Big Mac index and $1.42 using the OECD estimate, so an average of $1.34. Inflation in Europe has more or less consistently been lower in Europe than the US so PPP based on the OECD estimate has steadily increased from about $1.12 in 1996 to $1.42 currently.

Today, the UK and Europe seem cheap by comparison to the US. Mr. F.X. Market seemed to reach maximum despair in pricing European currencies three months ago, and even after the rebound during the fourth quarter, they would need to appreciate by about 25% to reach PPP. In contrast, Mr. F.X. Market was in a state of maximum euphoria in pricing European currencies 15 years ago when they were priced about 35% above PPP. If our analysis is right, currency should be a useful contributor to the Fund's returns over the next 5-10 years.

Russia

We did not expect Russia to invade Ukraine. Nevertheless, we were never naïve to the higher political risks of investing in Russia which is why we reduced the Fund's exposure when it got too high due to capital appreciation. We were also acutely aware of Russia's history of poor corporate governance. One of the many disappointing aspects of the invasion is that corporate governance there had improved by leaps and bounds. Another is that Russia probably had, and still has, the best head of any central bank globally.

Wars are always tragic, but they do ultimately end. How long this war lasts and what happens after the war ends is impossible to predict. The Fund has four investments in companies that operate predominantly in Russia. Two are Russian companies that are ultimately controlled by the state, Sberbank and GazpromNeft, but they are extremely well-run businesses that have generated a return on equity exceeding 20% on average over the past 5 years. Sberbank is Russia's largest bank, exceeding the second largest by a factor of about 7 times. GazpromNeft is a vertically integrated oil company that has one of the lowest costs of production in the world, coming in at under $10/barrel. In euro terms, both Sberbank and GazpromNeft are expected to earn roughly double what they earned 5 years ago. One company, TCS Group, is incorporated in Cyprus, and has averaged a return on equity of around 50% over the past 5

years. It is possibly the world's most profitable fintech company, and its earnings have roughly quadrupled over the past 5 years. The fourth investment is 12% cumulative preferred shares in Raven Property, a Guernsey incorporated company, which owns the largest portfolio of modern logistics warehouses located next to the ring roads around Moscow. The prefs rank in priority to the ordinary shares and cumulative outstanding coupons plus interest on the pref dividends in arrears must be paid in priority to any claim by the ordinary shareholders. Furthermore, interest accrues on the arrears at 15% for the first six months and at 20% thereafter. Raven's directors and senior management are large pref holders.

We think these companies in which the Fund has invested are likely to survive, but they are currently worth nothing (to us) because of various capital controls. If capital controls are eased, the uplift in the Fund's NAV per share could be close to 10% based on the Fund's current net assets. The basis for this ballpark estimate is that shares of Sberbank, GazpromNeft and TCS trade actively on the Moscow Exchange, but only for domestic investors. Based on the year end domestic share prices converted to US dollars at the quoted exchange rate, our Sberbank shares were worth $7.7 million, GazpromNeft was worth $5.7 million, and TCS was worth $0.8 million. These valuations equate to P/Es of 2.5, 4.5 and 6 respectively for the three businesses which are clearly distressed valuations. Our Raven Property pref shares are denominated in sterling, but at par, inclusive of accrued pref dividends and interest thereon, they would be worth £2.7 million. Furthermore, GazpromNeft declared two dividends aggregating over $1 million that we expect to be received in rubles in the Fund's S account at BNY Mellon. We currently have no access to these rubles, nor the ability to sell our Russian shares and repatriate the proceeds so our Russian investments continue to be valued at zero unless the rules in Russia and the West change.

Hard-To-Value Securities

In the past two years' Chairman's statements, I discussed our Hard-To-Value Securities which were de-listed in 2020. Each of these 5 holdings is in orderly liquidation. Most of the remaining value in these holdings is accounted for by 4 businesses: a shareholding in Microvast, listed on NASDAQ, held by Ashmore Global Opportunities (AGOL); 100% of mHance, a software services business owned by Better Capital 2009; 100% of Everest, a UK windows, doors and conservatories business, held by Better Capital 2012 Cell; and 100% of Alexander Proudfoot, a consultancy business, owned by Management Consultancy Group. The year end (rounded) valuation of these Hard-To Value Securities was as shown in the table.

Hard-To-Value Security	Fund value	Basis of valuation
Ashmore Global Opportunities	$2,300,000	25% discount to latest month NAV
Better Capital 2009 Cell	$2,000,000	21% discount to latest reported NAV
Better Capital 2012 Cell	$900,000	20% discount to latest reported NAV
Management Consultancy Group	$400,000	Last fundraising price

The price at which the Microvast shareholding, Everest, and Proudfoot are ultimately sold is very uncertain. Microvast's share price started last year at around $6 and we expected Ashmore to sell AGOL's shareholding during the first quarter. The end of their lock-up was delayed by the SEC until May, by which time, Microvast's share price was $4-5. The shares ended the year at $1.53 and Ashmore seems uninterested in selling Microvast shares at this price (which determines most of the AGOL NAV). Everest was last valued by Better Capital's directors at £5 million which approximates its liquidation value. The business is currently struggling but this is a £50 million annual turnover business, so the upside on an

ultimate sale could be considerable. Management Consultancy Group is valued at just over £4 million for 100% of the company. Based on our conversation with the Chairman and the new CEO of Proudfoot, we think Proudfoot could possibly be sold for 10 times this valuation within a few years. In essence, we think these orderly liquidations could result in meaningful upside for the Fund's shareholders over the next few years.

Changing of the guard

Camilla Anderson and I co-managed the Fund for the past 7 years, and for 6 years prior to that, she was an analyst working solely on investments for the Fund. From the start of this year, Camilla takes over as the sole manager of the Fund. I will remain Chairman and continue to be actively involved in following the Fund's investments, participating in calls with management of the companies in which we have invested, and help in the generation of new investment ideas. I am confident that Camilla will manage the Fund well and maintain its investment philosophy.

My wife and I are the largest shareholders in the Fund. At the end of October, we added to our investment in the Fund as we believe that Mr. Market offered us an unusually attractive price. There is no greater reassurance that I think the Fund's prospects for future returns are bright than me backing my words with cash! Last year, Camilla also added to her investment in the Fund.

Larger than usual redemptions

The Fund ended the year with net assets of $209 million. Last year, the Fund had $10.6 million in subscriptions and $18.7 million in redemptions. This is the ninth consecutive year that the Fund had net redemptions. The Fund's number of shares outstanding declined by 43% from their peak in July 2014. In mid-2014, the Fund's earnings yield was just over 7% which was neither cheap nor expensive, but the Fund had 25% of its net assets in cash as outstanding bargains were not plentiful. At the time it took $1.35 to buy a euro and about $1.70 to buy a pound sterling so European currencies were somewhat expensive. Contrast that with today where the earnings yield is nearly twice as high, European currencies are cheap, and the Fund's cash is 11% of net assets. We expect most of this cash to be invested soon as we complete our research on some new investment ideas that look appealingly undervalued. We do not mind shedding assets to manage when bargains are harder to find, but I will be spending some time this year for the first time in a long while persuading clients and potential clients that the bargains we are seeing today have historically led to very attractive returns for shareholders over the next 5-10 years. US equities still look expensive on a Cyclically-Adjusted P/E (CAPE) of 28, and many of the asset classes that I suggested in last year's Chairman's statements were spectacularly overvalued have been crushed this past year and still look unappealing. However, we strongly believe that our Fund is an attractive investment at current valuations. The tone of my Chairman's statement this year is accordingly much more bullish about the Fund's prospects than it was a year ago, and indeed for some time.

Desmond Kinch, CFA
Chairman