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OAM Asian Recovery Fund

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Dear Fellow Shareholder,

The Fund's NAV/share fell by 14.8% last year compared to the MSCI Asia ex Japan (US$) index, the Fund's benchmark, which declined by 21.5%. During the 24 years since inception, the Fund's NAV increased more than 13-fold, compounding at 11.4% per annum, while the MSCI Asia ex Japan (US$) index roughly tripled, compounding at 4.7% per annum. The benchmark figures used for comparison do not include dividends. However, we estimate that if dividends (net of withholding taxes) are included, the benchmark's return would increase by less than 2 ½ percentage points per annum.

Russia's invasion of Ukraine raised geopolitical risks globally, and in Asia's case, caused investors to focus on the risk of a Chinese invasion of Taiwan. Other reasons specific to Asia for last year's disappointing return include the China Communist Party (CCP) policy for dealing with the threat of COVID, and the strength of the US dollar which caused all Asian currencies (other than the HK dollar which is pegged to the US dollar under a currency board system) to fall versus the US dollar. The table below shows the currency moves last year of the major Asian currencies to which we have exposure.

Indian rupee	-10.2%
New Taiwan dollar	-9.9%
Philippine peso	-8.5%
Indonesian rupiah	-8.5%
Chinese renmimbi	-7.9%
Malaysian ringgit	-5.4%
Thai baht	-3.5%

Last year, several market commentators deemed China "uninvestible". We disagreed, but in order to reduce the Fund's risk, its Board adopted a policy to limit the maximum investment in each of the Fund's three geographic buckets – Greater China (comprising of China, Hong Kong and Taiwan); the ASEAN region; and the Indian sub-continent - to 40%. By comparison, 60% of the Fund's benchmark index is comprised of Greater China equities, so this policy implies a large underweight by the Fund in that part of Asia. This carries the risk of significant underperformance by the Fund relative to its benchmark index when equities in Greater China soar as they did in November. The index gained nearly 19% that month, the strongest monthly increase in 40 years, driven by Greater China as China announced looser COVID rules and less restrictive policies towards property lending at the G20 summit in Bali. The MSCI China index rose 29% and the Hang Seng index rose 27% in November. This illustrates how underweight global investors are in Greater China. It took only minor tweaks to policy for enough investors to change their mind about China to create sufficient marginal buying to cause a rebound of this magnitude.

Getting China right will almost certainly be the single most important factor going forward for the Fund. There are undoubtedly certain aspects of Chinese government policy that are worrying, but as an overseas Chinese friend put it to me recently, Chinese people care about one thing, money, or put less crudely, they only care about improving their living standards over time. In order to maintain their legitimacy, the CCP needs to keep focused on managing the economy well. Some of the CCP's policy actions that have been criticised by investors have been put in place to arrest the widening wealth gap between China's rich and poor, measured globally by the Gini coefficient. These measures ought to be positive over the long-term for social harmony and sustainability of growth, but in the short-term, they create uncertainty in some sectors.

Backing people we admire and trust

The genesis of the Fund 24 years ago was to find the next Warren Buffett and Peter Lynch of Asia and allocate money to them to manage. I spent two months in Asia in 1998 during the depths of the Asian financial crisis trying to identify these superior managers. Five managers were identified. We still have about $100 million or 35% of the Fund's assets allocated to four of these managers. The fifth, Mr. Teng, returned all external money late last year to focus on managing his family office and charitable foundation. Our congratulations to Mr. Teng on a job well done! How have the other four done?

Cheah Cheng Hye founded Value Partners and only managed about $100 million when we first allocated money to him to manage. He has since built Value Partners Group into one of Asia's leading investment managers, and the Group was listed on the Hong Kong Stock Exchange in 2007 – more on that shortly. We have $33 million invested in Value Partners Classic "A" Fund and $4 million invested in Value Partners Taiwan Fund. Since our Fund's inception we have withdrawn $7 million more than we invested in both funds. Cheng Hye has often been referred to as the Warren Buffett of Asia, a moniker that we think is well-deserved, but he has also trained and built a deep bench of investment managers at the Group. From his humble roots, selling pineapples at the roadside growing up in Malaysia, he continues to show humility and is as driven as he was when I first met him more than 25 years ago.

Richard Lawrence founded Overlook Partners and also only managed $100 million when we first allocated money to him. He built Overlook into a true partnership with James Squire, Leonie Foong and William Leung. Overlook's track record is superlative and he returned billions to his limited partners over the years. We have so far received back $10 million more than we invested with Overlook. Our remaining investment in the two Overlook partnerships is worth $33 million (comprised of $30 million in Overlook Partners Fund and $3 million in O3G which has a single investment in China Yangtze, the world's largest hydroelectric generation company) so our gain to date on our investment in their two partnerships is $43 million. Richard set out Overlook's approach, its track record, and the policy of returning capital whenever the size of their partnerships became too large, in *The Model*, the book that he published early last year. Richard retains his humility and has rightly credited the excellent managers of companies in which they invested for helping Overlook build this track record. When you enter Overlook's boardroom, there is a Hall of Fame plaque listing these managers and their companies. One of Overlook's strengths has been to quietly engage with Asian companies to make them better capital allocators, an approach that works well in Asia, in contrast to the aggressive activist engagement model that is prevalent in the West. Richard also acknowledged those who were useful sounding boards for Overlook in his book, and I was honoured to read that I was among those useful sounding boards.

Arisaig Partners has evolved in recent years. The three original founders retired more than 5 years ago. Congratulations to James Alexandroff, one of the founders, who was awarded the OBE in the New Year's Honours List for his philanthropic activities in Africa. The founders transitioned the leadership to a new generation of managers and research analysts who were trained under them. We have $24 million invested in Arisaig Asia Consumer Fund and have withdrawn $15 million more than we invested. The style and investing approach under the new leadership is unchanged. Performance has struggled a bit of late but their investment process is robust and we are confident that the next five years are likely to be rewarding for this fund.

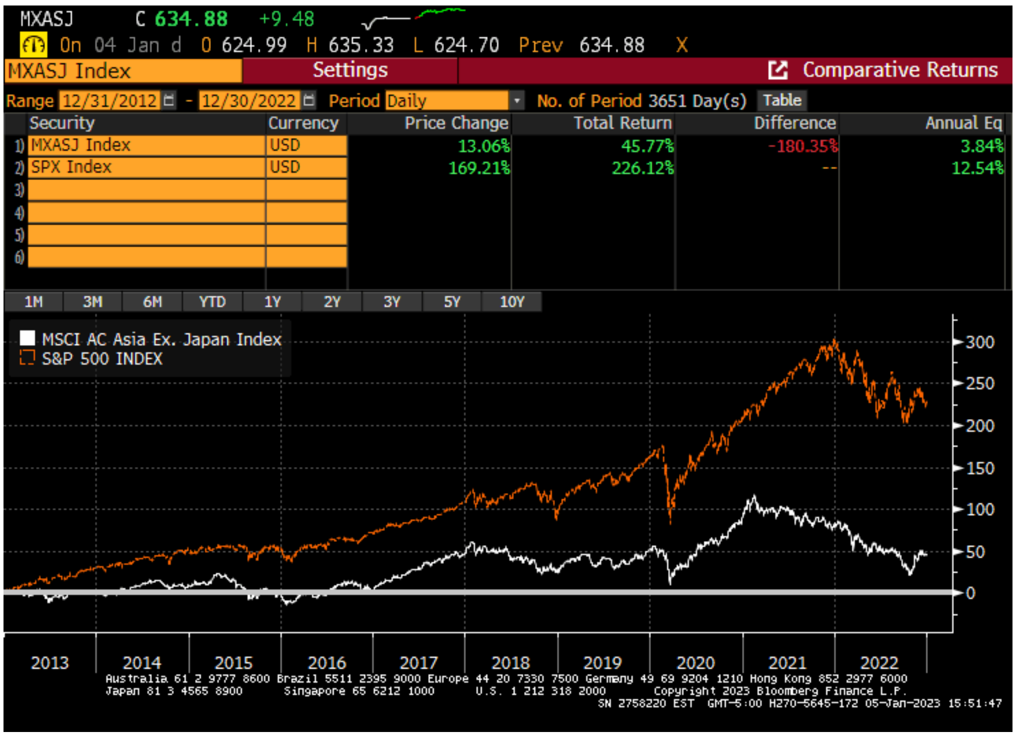
Colin Lee and Siew Kheng, a husband & wife team with a pedigree of previously managing money for larger, well-respected firms, manage CAM-GTF, a relatively small fund with less than $100 million in assets. We have an investment of $6 million in their fund and have withdrawn $10 million more than we invested over the years. More than half the fund is owned by their family and the investment style tends to be more conservative than our other managers. That rounds out our list of original managers.

Over the years, we have met other managers to whom we have allocated money. Four are ex-Arisaig senior team members. Two of these manage successful Indian equity funds, one manages an ASEAN consumer fund, and one manages a pan-Asian fund. Most of the other managers were introduced to me over the years by managers we already knew and respected. I met Claire Barnes who lives in Kuala Lumpur many years ago and she has done a fine job managing Apollo Asia Fund in which she is its largest shareholder. Claire introduced me to James Hay, another KL-based manager, who I have known for many years. In Bangkok, Kenneth Ng and John Thompson manage NTAsian Discovery Fund which has also been a wonderful investment over many years. In Singapore, Victor Khoo and Yu Liang manage a portfolio of very deep value Asian equities and we are the largest investor in their fund.

The reason I mention these long-lasting, fruitful relationships is to illustrate how we forge deep relationships with managers who we know and trust. We insist that they have "skin in the game" and that they get to know the people who manage the businesses in which they have invested in the same way that we have with them. This is so important at a time like this when we see crypto and venture capital investments blowing up almost weekly. We are not interested in unproven concepts or technologies, no matter how exciting and alluring, and we are unwilling to back unproven leaders lacking in any prior track record. We also meticulously review each fund's constitutional documents and the terms being offered, and if they are not to our liking, we request changes before making an investment. We also insist on proper independent oversight of each fund in which we invest. It is imperative that we fully understand and agree with the investment process and the merits of the underlying investments. Call us conservative or old-fashioned. We prefer it that way.

Ignored by international investors

While US equities, crypto, venture capital, and the US Dollar went on a wild tear for over 10 years of zero interest rates until the party ended in November 2021, Asian equities have been left for dead by international investors as shown by the comparative chart below of returns by the S&P 500 and the MSCI Asia ex Japan index. Financial commentators refer to the "Everything Bubble" that developed during the more than a decade of zero interest rates in the developed world. As this chart demonstrates, the "Everything Bubble" did not extend to Asia ex Japan so there is no bubble there to burst. In contrast, we do not think the bubble in several other assets that imploded last year is not yet fully deflated.



I made my first trip to Asia since COVID in November and found the region humming. The dynamism, work ethic, and quest to save money and improve living standards is very much intact. The currencies there also seem cheap in terms of purchased power. With US equities, particularly the large high-flying growth stocks rolling over, maybe Asia's turn has finally come. If so, as this chart of the MSCI Asia ex Japan index relative to the S&P 500 on the following page suggests, we should have many years of outperformance of Asian equities ahead of us.

<u>Why Greater China looks attractive</u>

Sentiment towards Hong Kong is as negative as I can recall in the 30 years I have invested there. Dr. Marc Faber moved to Hong Kong almost 50 years ago and he says that it is the most negative he can recall. That is generally a positive sign for investors as it suggests that the selling has probably been depleted. Indeed, the large rebound in November suggests that October could have been a major bear market low for Hong Kong. In October, the Hang Seng index had fallen to the same level as 25 years earlier. That qualifies as a major bear market by any standard.

The Fund directly owns shares in two companies in Hong Kong: Swire Pacific B shares and COSCO Shipping International. In last year's Chairman's statement, I explained why both companies' shares were extremely undervalued. Last year, in spite of Hong Kong's bear market, Swire Pacific B shares returned 48% and COSCO Shipping International returned 16%, comprised of capital appreciation and dividends. This was largely due to both companies recognising this deep undervaluation and aggressively repurchasing shares in the market, actions that we applaud. Both companies' shares are still deeply undervalued. COSCO Shipping International's share price is HK$2.52 and they have net cash of HK$4.00/share and are paying a fully covered annual dividend of HK$0.20/share which approximates the net earnings of its operating businesses. Swire Pacific B share price is HK$10.62, the NAV/share is HK$36 which we think is arguably understated, and they pay a fully covered dividend of HK$0.55/share. Dividends in Hong Kong are free of withholding tax.

In October, as the Hong Kong market was plumbing new lows, we added a third direct holding in Hong Kong, shares in Value Partners Group. The company had its IPO in late 2007 at HK$7.63/share. I remember having lunch with Cheah Cheng Hye in 2015 and asked him about his recent sale of roughly one sixth of his shareholding at HK$14.50/share which raised about US$200 million for him and his family. He essentially shrugged it off by saying that he was getting tomorrow's price today. In the same way that he timed the IPO impeccably, the timing of his large share sale was perfect. In October, I noticed that Value Partners Group was aggressively repurchasing shares in the market and the share price was below HK$2.00 so we bought shares. Our investment appreciated more than 50% in just two months since we made the investment, albeit not in quite the size we intended before the share price increased. The company has net assets of HK$2.50/share, largely comprised of cash and shares in Value Partners funds. Over the past 10 years, the Group paid over HK$2.50/share in dividends and its NAV grew during the period. Conservatively, we value the business as a holding company worth HK$2.50/share and an operating business worth HK$2.50/share, so about HK$5.00/share in total. I trust Cheng Hye implicitly. He still owns about 25% of the company. If I was asked to pick which firm in Asia might become the equivalent of what Fidelity is in the US today, it would be Value Partners. If they are successful in building the firm in the way I think possible, then the shares ought to sell at a multiple of my current valuation a decade hence.

No one knows whether China will invade Taiwan. However, that market's valuation is also very attractive. Warren Buffett's recent investment of about US$4 billion in TSMC, Taiwan's best business, was noteworthy. On a P/E of 12, TSMC's shares look glaringly undervalued. It is Overlook's second largest holding and has featured as one of its largest investments for many years. Indeed, Dr. Morris Chang, TSMC's founder, is on Overlook's Hall of Fame and Richard Lawrence devoted a chapter in his book to TSMC which he describes as the most important company in Asia. Taiwan is more than just TSMC. The entire semiconductor and electronics components and assembly chain is represented there. The island is critical to the proper functioning of the world economy.

China is a tougher nut to crack. I recall having lunch in Hong Kong with Cheah Cheng Hye and Anthony Bolton when he managed Fidelity China Special Situations Trust several years ago. They both agreed that there are many rogue sponsors of Chinese companies and they had to dig deeper into the background of company principals before getting sufficient comfort to invest. Whilst we feel comfortable investing in Hong Kong-listed companies run by people with long track records who we trust, we leave it to managers with experience of investing in China successfully such as Value Partners and Overlook.

Avoiding hedge fund hotels

One of the risks of running what is largely a fund of funds is that there could be a wide overlap of common holdings by different managers. In the US, it is common for many hedge funds to own the same names, most predominantly the FAANGs which were pummelled last year. Whilst many Asian funds had Alibaba and TenCent as their top holdings, this was not the case with virtually all our funds. Thank goodness, because Alibaba fell 80% peak to trough between October 2020 and October 2022 and TenCent fell 73% peak to trough between January 2021 and October 2022. While there are a few companies that are owned by several of our funds, these tend to be superbly run smaller and medium-sized companies that are growing nicely and whose shares still look relatively cheap because they are below the radar of most international investors. In essence, each of our managers is generating original investment ideas based on their own research.

A good example that will be familiar to our Cayman clients is Narayana Hospitals, a low-cost provider of health care in India. While I was in Singapore in November, I met with Rory Dickson and Abhinav Mehra who manage CC Asian Evolution Fund in which we are the largest shareholder. I have known Rory for more than 15 years since he was the Head of Research at Arisaig. Narayana is one of that fund's largest holdings. It was founded by Dr. Devi Shetty who was featured in the Netflix series *The Surgeon's Cut*. He remains Chairman of the company, and his son, Viren, who has an MBA from Stanford, is its Vice-Chairman. Shetty's family are the majority shareholders of the company.

Narayana has 20 hospitals in India and one in Cayman. The hospital in Cayman has revolutionised health care in Cayman and helped to lower costs for many procedures. Several of our clients have had procedures done there, including quadruple heart by-pass surgery in one case. I have had diagnostic procedures done there, and my father (who does not live in Cayman) had a knee replacement done there. All reports I have heard about the quality of health care and service there were exemplary, and all were done at a fraction of the cost of US health care. I was interested to hear from Rory and Abhinav that Narayana had to borrow about US$70 million to buy out the 70% shareholding of their US partner, Ascension Health, and expand the facility, but they have essentially earned that much back in EBITDA over the past 4 years. It is no wonder that they are building a second facility in Cayman to offer oncology and other procedures. This is a wonderful example of what is still a relatively small company that provides a useful purpose, lowers costs for consumers whilst maintaining a high level of quality, and which is a highly scalable business model, both across India with 1.3 billion people as well as internationally. Below is Narayana's share price chart since CC Asian Evolution Fund invested.

Opportunities in the ASEAN region

There are many excellent companies in the ASEAN region which has a combined population of over 600 million. Indonesia, Vietnam and the Philippines have the largest populations in the region and are the most interesting, but Malaysia also looks interesting, particularly after the recent change in political leadership. Many excellent businesses in Malaysia have been ignored by investors and are stunningly undervalued. On a recent Sunday afternoon, I toured the 4.5 million square foot Mega Mall in Kuala Lumpur with James Hay and found it packed with shoppers, diners, cinema goers, and leisure seekers of all ages. James' fund owns shares in the property holding company of which Mega Mall is its major asset. The shares trade at a roughly 75% discount to the current appraised value of the net assets for no good reason. The only apparent reason is that Malaysia has been ignored by international investors for many years, and there are few Malaysian investors that are good at valuing companies. James Hay started the Kuala Lumpur Expat Brokers Christmas Lunch in 1994. There were 24 expat stockbrokers in KL at the time. Today, there are zero. This is in spite of KL being ranked recently in a Bloomberg article the best city in the world for expats, a view with which I somewhat concur. During that nearly 30-year stretch, Malaysia's weighting in the MSCI Asia ex Japan index declined from 24% to 1%!

We have long had high exposure to Indonesia and our managers have invested in a number of well-run, growing businesses that serve Indonesians who have seen a rapid improvement in their living standards over the past 20 years. It was several years since I had last been to Indonesia and the rise in living standards that I recently observed was clear to see. Indonesia is still not a well-researched equity market in spite of having the world's fourth largest population.

Vietnam looks particularly interesting at the moment. It had the second largest decline of any stock market in Asia last year, after Sri Lanka, as the corporate bond market came to a standstill and the government cracked down on corruption in the real estate market in Ho Chi Minh. As a result of the sharp stock market fall, the Vietnam equity market now trades at an average P/E of 9. It is as cheap as it has been in at least a decade. We are researching a few opportunities there and expect the Fund's exposure to Vietnam to increase in the near future.

Conclusion

The Fund owns a portfolio of well-run businesses throughout Asia ex Japan, either directly or through managers who we backed, that we think on balance are undervalued and are likely to reward shareholders handsomely during the remainder of this decade. Its geographic split at year end was: 37% in Greater China, 27% in ASEAN, and 22% in India. The Fund had $283 million in net assets at year end. During the year, there were $21 million in subscriptions and $16 million in redemptions. This is the first year in the past nine years that the Fund had net subscriptions. The Fund's number of shares outstanding declined by 35% from their peak in mid-2014. My wife and I remain the Fund's largest shareholders. Given our confidence in what I stated in this letter, we added a further $1 million subscription to the Fund at the end of October. This year, I will be trying to convince others that Asian equity markets' time has come again, and now is probably a good time to invest in our Fund. Whether we are right in becoming more bullish will be somewhat dependent on whether the US dollar has peaked. One thing is certain. Over the past 9 years, earnings or NAV of the companies owned by the Fund have grown significantly, but this has not been reflected in investment returns as Asian currencies weakened and P/E valuations fell. In the very long-run, earnings growth is what drives returns and this is very much intact at the companies in which we own shares, either directly or indirectly.

Desmond Kinch, CFA
Chairman