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14th January, 2025

Dear Fellow Shareholder,

The Fund's NAV/share rose by 10.4% last year compared to the MSCI Asia ex Japan (US$) index, the Fund's benchmark, which increased by 9.8%. During the 26 years since inception, the Fund's NAV increased nearly 16-fold, compounding at 11.2% per annum, while the MSCI Asia ex Japan (US$) index rose 3.5-fold, compounding at 7.5% 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. Given the rapid growth in passive investing, we also compare the Fund's investment return to the most comparable Exchange Traded Fund (ETF) which gives exposure to the Fund's investment universe. We think the best comparable is the iShares MSCI Asia ex Japan ETF (AAXJ). Last year, AAXJ returned 9.6% inclusive of dividends, net of withholding tax. The comparable ETF is a good comparison for another reason: it includes an accrual for Indian capital gain tax which the benchmark does not include.

In last year's Chairman's statement, I wrote that "*if Greater China outperforms the Fund's benchmark, which we think has a higher probability of occurring, the Fund is likely to underperform its benchmark by being heavily underweight that region*". This is because Greater China (China, Hong Kong & Taiwan) comprises nearly 60% of the benchmark index whilst we have a maximum limit of 40% invested in each of Asia ex Japan's three geographic regions. As a reminder, the Fund's Directors added this 40% limit after Russia's invasion of Ukraine and subsequent Russian sanctions to mitigate risk in a world of increased geopolitical risk. I also wrote a year ago that "*we think China and Hong Kong (HK) equities could outperform the Fund's benchmark, and possibly by a substantial margin …. Firstly, sentiment towards China is very negative, particularly by US and, to a lesser extent, European investors. Many US investors have gone so far as to sell all their China investments. Even a slight improvement in sentiment could lead to enough foreign buying to push up those indices strongly. Secondly, valuations of HK and Chinese equities are very low, both by historic standards and relative to other equity markets globally*." This is exactly what happened after China announced, in late September, stimulus measures aimed at putting a floor under declining property prices, thereby boosting consumer confidence and consumption spending. Chinese and HK equities soared for a few weeks before giving up some of their gains, but Greater China equities still ended the year outperforming ASEAN and Indian markets as shown in the following table.

Country	Index	Market return	Currency return	USD return
Hong Kong	Hang Seng	19.4%	0.8%	20.2%
China	CSI 300	18.1%	-2.5%	15.6%
Taiwan	TAIEX	29.9%	-7.8%	22.1%
South Korea	KOSPI	-10.1%	-9.8%	-20.0%
India	SENSEX 30	8.8%	-2.9%	6.0%
Singapore	Straits Times	17.5%	-2.9%	14.6%
Thailand	SE Thai	-2.2%	0.5%	-1.7%
Malaysia	KLCI	12.1%	3.4%	15.5%
Indonesia	Jakarta Comp	-3.9%	-4.2%	-8.1%
Philippines	PSEi	-0.4%	-4.1%	-4.5%
Vietnam	Ho Chi Minh	12.7%	-5.1%	7.6%

Many market commentators, most of whom I suspect have never set foot in China, say with strong conviction that China is uninvestible. This reminds me of Mark Twain's famous quip that: *"It ain't what you don't know that gets you into trouble. It's what you know for sure that just ain't so."* We have no strong views on the risk of China invading or blockading Taiwan, though we think the risk is low but not dismissible. It is more obvious that foreign investors are massively underweight Hong Kong and China equities and many US institutions are now seeking Asia ex China mandates. We are reminded of the saying by Warren Buffett's mentor and teacher, Benjamin Graham, who wrote that *"An intelligent investor gets satisfaction from the thought that his operations are exactly opposite to those of the crowd. Buy when most people, including experts, are pessimistic, and sell when they are actively optimistic. The best values today are often found in the stocks that were once hot and have since gone cold."* Buffett's long-time business partner, Charlie Munger, said pretty much the same thing about China shortly before he passed away: *"My position in China has been that: (1) the Chinese economy has better future prospects over the next 20 years than almost any other big economy. That's number one. (2) The leading companies of China are stronger and better than practically any other leading companies anywhere, and they're available at a much cheaper price. …. I don't think we should assume that every other nation in the world, no matter what the problems are, should have our type of government. I think that's pompous and self-centered. Ours is right for us but maybe theirs is right for them."*

I spent almost all of October travelling through Asia, meeting fund managers, companies and clients. The dynamism, work ethic, rapidly improving infrastructure, and the "can do" attitude were strongly evident right across the continent. Equity valuations in the region, ex India, are close to generational lows in contrast to US equity valuations which are at a generational high. The valuation charts for Apollo Asia Fund in last year's Chairman's statement showed these generational low valuations in Asia which persist.

Hong Kong (HK) has the cheapest valuations in the region. Last year was the first year in five years that Hong Kong equities had a positive return. The Fund directly owns shares in three Hong Kong listed companies rather than through one of the boutique funds in which we are invested. In each case, these companies' shares have produced strong returns for the Fund during a long bear market, but they each remain extraordinarily undervalued. We have owned shares in COSCO Shipping International since 2014 and generated a 14.4% per annum internal rate of return (IRR) on our investment. The company has been consistently profitable and paid increasingly generous dividends which are free of withholding tax. The company's shares still sell for around net cash on its balance sheet, so we are effectively getting the

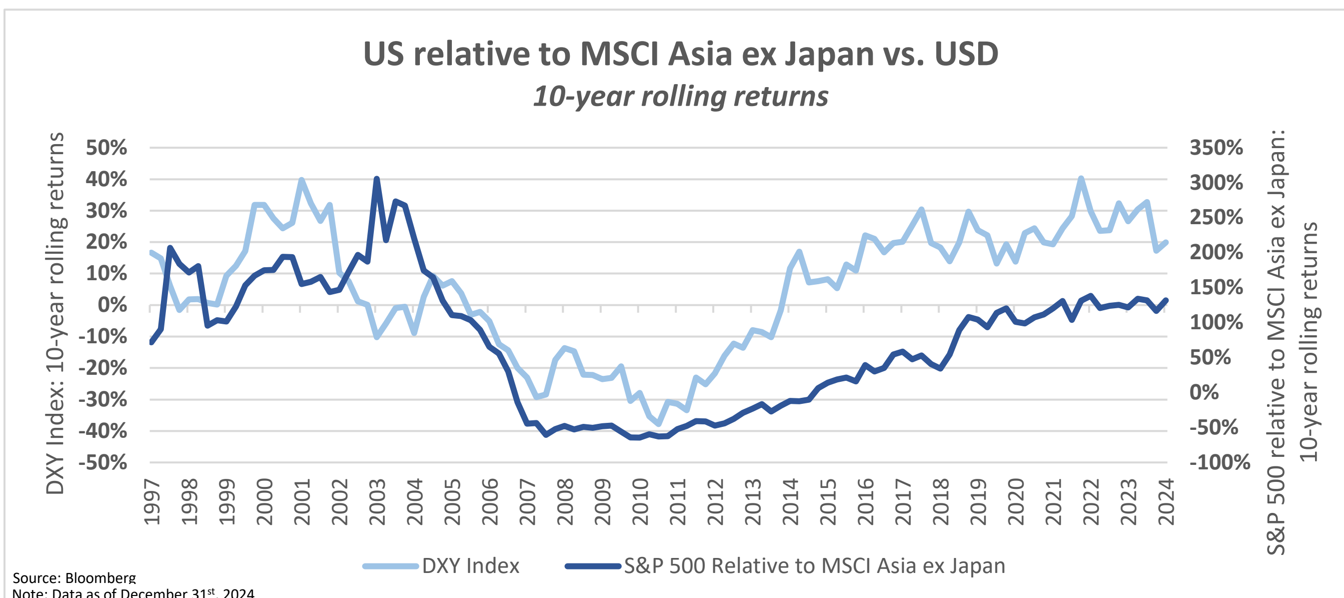
operating businesses for free. We owned shares in Value Partners Group from 2012-14 and again since 2022, adding more last year before trimming again after the share price nearly doubled during the China stimulus excitement. Over these periods, the Fund generated an IRR of 37.4% per annum from its investments in that company. The shares still trade at a discount to this fund manager's liquidation value, giving no value to the franchise and brand which is well-known in HK and offering us a free, geared option on a recovery in HK equities. Swire Pacific B shares is our third HK equity investment. This is a high-quality investment holding company of the Swire family that owns a controlling stake in Swire Properties which owns several recognizable flagship multi-use property developments in Hong Kong, China & the US such as Pacific Place, Taikoo Place & Brickell City Centre in Miami. It also owns the Coca Cola bottling franchise for most of China, Hong Kong, Taiwan, Thailand, Vietnam, Cambodia & Laos, as well as HAECO (aircraft maintenance in HK & China) and a 45% stake in Cathay Pacific. More recently, it has been expanding into owning and operating private hospitals in China and Indonesia. These Swire B shares are trading at an incredible 70% discount to NAV. Since we invested in the company, the Fund generated an IRR of 7.3% per annum on its investment in Swire B shares.

The MSCI China index is down 50% from its peak in early 2021. This is largely due to geopolitical concerns and a large decline in property prices. Chinese individuals have most of their savings invested in property, wealth management products, and bank deposits which are estimated at around 200% of GDP. Although household balance sheets are strong and loan to value ratios on individual ownership of property are low, declining property prices have had a very negative effect on confidence and consumer spending. The other factor that caused the huge decline in Chinese equities was a steep decline in P/E ratios. Chinese equities now trade at 10.5 times estimated 2024 earnings. The reciprocal is the earnings yield which is currently 9.5%. 10-year Chinese government bonds currently yield 1.6% so the implied equity risk premium on Chinese equities is now 8%. This compares to a negative implied equity risk premium on US equities. This is despite China emerging as the global leader in important future growth industries such as solar panels, wind power, electric vehicles (EVs) and EV batteries, drones, high speed trains, mobile phones and industrial robots. China now has about triple the annual patent applications as the US, and with a higher education focus on maths and science, this lead is likely to widen.

ASEAN has been completely ignored by foreign investors and the MSCI ASEAN (US$) index is 18% lower than it was 10 years ago. That makes no sense given the economic growth of the region and the earnings growth of the companies in which we have invested. Part of this is due to currency depreciation and part is due to a significant de-rating of equities in the region. Other than in Singapore, accommodation and restaurants in ASEAN feel particularly good value. This is the region in which we are most overweight versus the benchmark index. For much of our exposure there, the Fund is invested through a handful of specialist managers who are focused on just one or a few markets, or just consumer stocks. Most of our ASEAN exposure is in Indonesia, Vietnam and the Philippines which have the largest populations with a combined total of more than 500 million people. They are also the least expensive markets in ASEAN. When valuations of those markets were double or triple current levels, foreign investors were clamoring to invest in them, and now most foreign investors say they are too small to bother investing. Though sentiment is not as extreme as China's "non-investible" label, the almost complete absence of foreign investors in the region arouses my contrarian instincts. As in the case with China, retail participation in stock markets in these countries is very low and pension arrangements are in their infancy.

India is different. Equities are not cheap, though that has been true for a long time. We think they are unlikely to look cheap for a very long time. India has some of the best listed businesses on the planet. This is probably because the cost of capital has historically been high so companies there had to be highly free cash flow generative to internally finance growth, and where they needed external capital, they had to generate a high return on capital in order to survive. We are invested in India through what we think are the country's best boutique managers. India has a drawback in that it is the only country in which we are invested that has capital gains tax (CGT) on the sale of equities. This tax rate was increased during the latter part of 2024 to an effective rate of about 15%. We reduced the Fund's exposure to India last year and intend to maintain it around the current level of 22% of the Fund's assets. Nevertheless, we and our managers think US dollar returns of at least 10% per annum can be achieved from their portfolio of businesses, even after making allowance for a couple of percent annual currency depreciation, CGT accruals, and some reduction in P/Es. This is due to high anticipated earnings growth. India's GDP per capita doubled from $1,400 to $2,800 over the past decade and consumption of many goods and services is entering the point where the consumption S curve is likely to accelerate. India has a few other advantages, namely having one of the most advanced digital economies in the world and being in the early stages of Indian savers investing monthly contributions in SIPs which are similar to 401K plans in the US.

We are not relying on the return of foreign investors to generate attractive returns in Asia. Domestic retail participation in Asian equity markets is low and should increase significantly from here. Rising Asian equity markets would almost certainly spark animal spirits and encourage retail participation as it has in the US. We think our objective of generating 10% compound annual returns in US dollar terms for the Fund's shareholders over the next 5-10 years is realistic based on anticipated earnings growth, dividend yields and some re-rating of equities in HK, China and ASEAN. An end to the significant currency depreciation we have seen in the ASEAN region would provide an added boost. There has historically been a strong inverse correlation between the US dollar and the relative and absolute performance of Asia ex Japan index as the chart below shows. In other words, Asia ex Japan equities have done well when the US dollar is weak. The US dollar is expensive versus all other currencies on a purchasing power parity basis and we think there is a reasonable chance that the dollar will weaken over the coming 5-10 years.



Source: Bloomberg
Note: Data as of December 31st, 2024

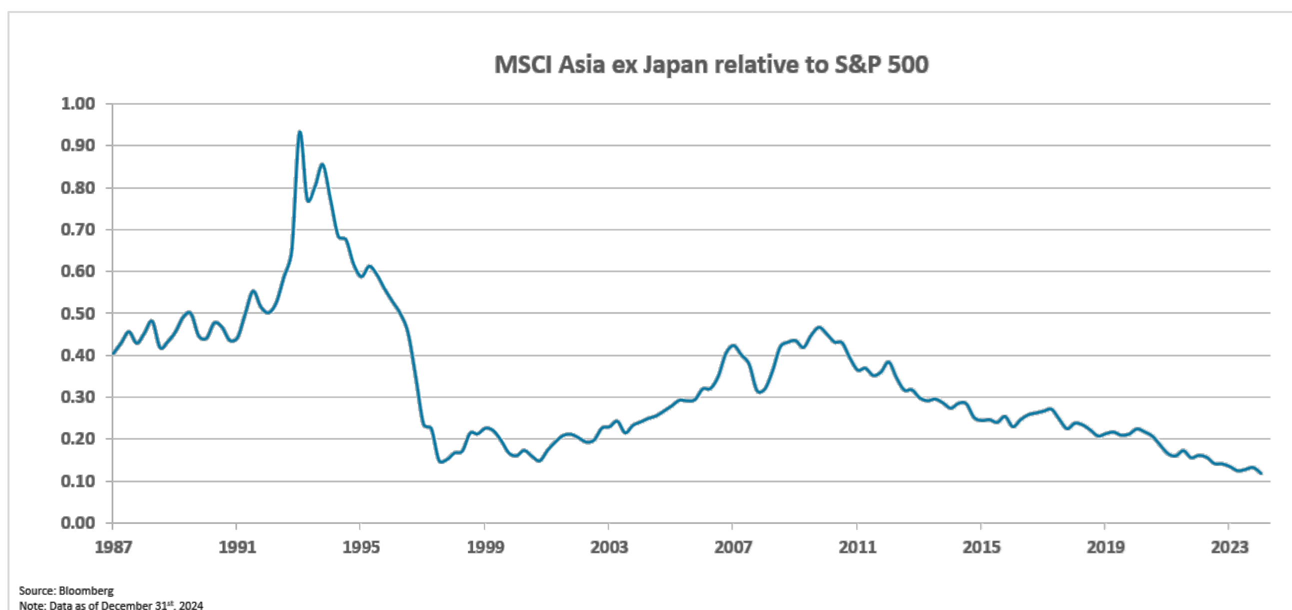
Studies show that roughly 90% of US equity funds underperform their benchmark over 10 years, net of all fees and expenses. Unless you are very talented at choosing superb US fund managers, or US equities, it probably makes sense to go the passive route and invest in US equities through a low-cost ETF or index fund. We believe there is a better chance of investment managers beating the passive alternative in Asia and Europe which is part of the reason we have focused on these markets for more than 30 years. They tend to be less competitive; listed companies tend to be covered by fewer analysts, and often smaller companies are covered by no analysts; and the passive alternative in Europe and Asia is a lot more expensive than leading US ETFs. In the case of OAM Asian Recovery Fund, the passive alternative against which we compare our performance is the iShares MSCI All Country Asia ex-Japan ETF (AAXJ). This tracks the MSCI index of the same name, but there are important drags, namely the ETF's 0.70% expense ratio, capital gains tax provisions on its Indian equity holdings, and 30% withholding tax on the dividends it pays.

Our Fund absorbs an extra layer of fees and expenses on a large part of its assets, but we often back relatively new funds where we negotiate favorable terms which are always passed on to the Fund. The reported NAV of our Fund reflects all fees and expenses except OAM's quarterly fees which are charged at the client account level based on the performance of the client's account. So far, over its 26-year life, OAM Asian Recovery Fund's NAV compound annual return has been more than 5 percentage points higher than the return that would have been achieved with a passive approach. In each decade of its existence, the Fund's NAV return exceeded AAXJ (or its index proxy adjusted for the aforesaid expenses) significantly, and halfway through the current decade, this is happening again. These are the compound annual returns of our Fund versus the passive alternative, net of withholding tax on dividends.

Period	1999	2000-09	2010-2019	2020-2024
OAM Asian Recovery Fund	69.7%	13.5%	7.6%	5.0%
AAXJ	62.9%	4.5%	4.2%	0.9%

This shows that our management fees have been worth paying over more than a quarter of a century of the Fund's existence. A few percentage points a year of return compounded over decades makes a monumental difference. Throughout its history, the Fund maintained a record of recovering quickly from any temporary losses. So far, it has never taken more than 3 years for the Fund's NAV to reach a new all-time high. This is an illustration of the Fund's approach to risk, and it contrasts with ETFs that track the S&P 500 and NASDAQ which took over a decade to recover to a new all-time high from their peak at the start of this century when US equities were similarly expensive and US euphoria was this pervasive.

Sentiment moves in cycles and very expensive asset classes deliver poor returns over the following decade, and vice versa. As the Bloomberg columnist Merryn Somerset Webb wrote recently: "*The truth about investing is very simple. The biggest determinant of long-term performance – think 10 years plus - is the price you paid for the assets in your portfolio in the first place… the first thing you look at is valuations. Is the asset you are interested in cheap or expensive? Look at it like that, and you may find yourself moving away from the both expensive and frighteningly concentrated American market.*" Asia ex Japan equities are now even lower than they were at the depths of the Asian financial crisis relative to US equities as shown in the chart below.



The basic principle of buying low and selling high is much more difficult to execute in practice than it sounds in theory. The quest for instant gratification that causes most investors to buy what has been going up in price and the fear of loss that prevents them from buying what has fallen steeply in price are the greatest psychological impediments to investment success. These human instincts explain why expensive assets become more expensive than dreamed possible, and cheap assets often become even cheaper until they find a floor. Financial history is littered with booms and busts. There are few free lunches in investing, but one is dollar-cost averaging which takes human emotion out of decision-making and forces you to buy more shares when prices are lower and fewer when they are higher, if you stick to your plan to invest a fixed amount at regular, predetermined times. Another is to rebalance the asset allocation of your portfolio so that you are forced to sell appreciating assets as they become more expensive and buy depreciating assets as they become cheaper.

During the past six months, I spoke to the heads of several family offices. Invariably, these were highly successful businesspeople or very sophisticated investment professionals. I asked them specifically about their investments in Asian equities and their stance towards adding to their exposure to the asset class given how cheaply valued Asian equities have become. Almost without exception, they have a very high allocation to US equities, and in some cases, US private equity, particularly venture capital. Being "all-in" on US equities at a point when they are valued on every measure more expensively than 98-100% of the time during the past century does not seem sensible. Warren Buffett, the cleverest and most successful investor in US equities in my lifetime, currently has over $300 billion in cash or cash equivalents in Berkshire Hathaway which is a record percentage of the investment vehicle's assets in cash. Buffett claims that he is not a market timer, but his activity and track record speak otherwise.

Others told me that most of their Asian equity exposure is in private equity investments that they are currently unable to exit, or that they lost a lot of money in defaulted bonds issued by leading China property developers, and this is a deterrent to investing in Asian listed equities. Major bond defaults and a steep decline in private equity exits are symptomatic of things that happen near market lows, such as

the Lehman bankruptcy six months prior to the US bear market low in early 2009. The possibility of selling some US equities, which now account for 73% of the MSCI World index, a record high, compared to 15% of global GDP on a purchasing power parity basis according to the IMF, would seem to be a more sensible course of action than giving an asset class that endured a long bear market a wide berth. This reluctance to sell US equities which have been the only game in town for nearly 15 years is reminiscent of fund managers' reluctance to sell Japanese equities in the latter part of the 1980s, although they looked very expensive, because they kept going up in price. Even though Asian equities other than in India are inarguably undervalued, it is hard trying to persuade investors that this is a good time to invest in Asian listed equities. I encountered similar resistance to investing in Asia in late 1998/1999 when I was trying to encourage clients and potential new clients to invest in the Fund at launch and shortly after launch. That was also a time when US equity valuations were very high, retail participation and high-risk speculation in the US stock market were rampant, market participants were excited by a revolutionary new technology (the internet), and Asian equities were cheap and abandoned. Sound familiar? When the outlook is gloomy or uncertain, it is more often than not the best time to buy. As Warren Buffett said: "*The future is never clear; you pay a very high price in the stock market for a cheery consensus. Uncertainty actually is the friend of the buyer of long-term values*."

The Fund currently has net assets of $300 million and $8.5 million in cash which we need to keep on hand as a buffer, so investment in the new opportunities we have identified will depend on whether we get net inflows to the Fund or sell any of our existing investments. During the year, the Fund received $3.6 million in subscriptions and paid out $16.4 million in redemptions. This is the thirteenth year during the past fifteen years that the Fund received net redemptions, more or less coinciding with the period of Asian equities underperforming US equities. This experience has been common across most Asian equity funds. If we are right in thinking that the Fund is likely to provide significantly higher returns over the next 10 years than it did over the previous 10 years, net inflows ought to resume. The Fund's NAV per share increased by 66% or 5.2% per annum during the past 10 years, but the P/E of Hong Kong, Chinese and ASEAN equities that account for nearly two thirds of the Fund's assets, declined, in many cases very significantly. This de-rating was a one-time event that we think is unlikely to be repeated and might possibly be reversed in coming years. US dollar strength was another headwind that we think is unlikely to be repeated during the next 10 years.

We are not just talking "our book". I subscribed for more shares in the Fund early last year. My wife and I are the Fund's largest shareholders. The Fund's Directors and their spouses, employees of the Fund's Investment Manager and their spouses, either directly or indirectly through holding companies, own 27.5% of the Fund's shares. Such a huge alignment of interest is unusual in our industry. Eating our own cooking is a key part of our mantra.

Desmond Kinch, CFA
Chairman