OAM European Value Fund
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

17th January, 2024

Dear Fellow Shareholder,

Chairman's report

2023 was the first year since the Fund's launch during which I did not manage or co-manage the Fund. I decided to give Camilla the opportunity at the end of 2022 to take sole responsibility for managing the Fund's investments. Hence, the format of this year's Chairman's statement differs from my prior statements. I will provide a shorter review of the Fund's performance and prospects and Camilla, as the Fund's investment manager, will follow with a more detailed bottom-up review of its investments. As one would expect, Camilla made a few changes to the portfolio so the focus of her report is on the rationale for major purchases and sales last year.

Last year, the Fund's NAV/share increased by 12.9% compared to a 16.8% increase in its benchmark, the MSCI Europe (US$) index. Over the Fund's 21 years of existence, its NAV/share increased 564%, compounding at 9.4% per annum. By comparison, the Fund's benchmark increased by 124% or 3.9% 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 ½ percentage points. Last year's performance relative to the Fund's benchmark was disappointing. This was mostly a result of the benchmark's return being driven largely by a few European large capitalisation growth stocks. Our Fund is a dyed-in-the-wool value investor and large growth stocks sporting high valuations are not our hunting ground.

Allow me to provide an example. Last year, the Fund invested nearly $5 million to buy 0.4% of Italmobiliare's shares. We have owned shares in this Italian company twice in the past and made very handsome returns both times. Italmobiliare is the investment holding company of the Pesenti family. It has investments in a number of predominantly Italian companies, mostly privately-held, but some listed, as well as some real estate, private equity investments and cash. With the assistance of the company, and an analyst in Milan who we have known for nearly 20 years, we estimate the value of the company's investments. We think the current value of the company is at least double the current share price. A 50% discount to NAV is unusually attractive so we took advantage of the company's shares going on sale, for no good reason as far as we can tell.

Caffé Borbone is Italmobiliare's largest investment, accounting for close to 30% of its NAV. It is one of several very interesting Italian branded consumer goods companies in Italmobiliare's portfolio. It is Italy's leading coffee brand in the capsules segment, and is 60% owned by Italmobiliare. Their capsules are significantly cheaper than Nespresso, one of Nestle's leading brands. Packs of 100 Borbone capsules (which are compatible with Nespresso machines) can be purchased for around 20 euro cents per capsule compared to about 50 euro cents per capsule for Nespresso capsules. Currently, Borbone sells 95% of its products in Italy, but it is expanding abroad, particularly in the US. Their products are even available in Cayman. Italmobiliare bought its 60% stake in 2018 for €140 million which we think was a very good price. During the past five years, Borbone's sales increased by 130% and its EBITDA by 140%. By comparison, Nestle's EBITDA in euros increased by less than 20% over the past 5 years. Yet, Italmobiliare values Borbone at about quadruple the price they paid, equivalent to 12 times EV/EBITDA compared to a valuation of 17x EV/EBITDA for Nestle. This 30% valuation discount (or 65% if we factor in the 50% discount to NAV at which Italmobiliare's shares sell in the market today) for Borbone, a much faster growing business than Nestle, offering a quality product at an attractive price, looks conservative. This example illustrates the essence of what we do.

A major drag on the Fund's returns last year came from its investments in financial services. We are well aware of the risk of "things breaking" at financial institutions when interest rates increase as rapidly as they did during the past two years. This is why the sector has been de-rated to such a cheap valuation. We feel comfortable that Silicon Valley Bank or Credit Suisse risks do not sit lurking on the balance sheets of our investments in Close Brothers or Standard Chartered Bank, and that there is no significant mismatch in the maturity of assets and liabilities on the balance sheets of NN Group, Vienna Insurance Group or Hiscox which we think are all sound underwriters. Based on nearly 40 years of investing experience, which includes a few painful memories, I am well aware that banks have a tendency to erode their equity cushion in each crisis to such an extent that they need to raise equity capital at massively dilutive terms at the bottom of the cycle. For instance, over the past 20 years, HSBC's shares outstanding increased by 80%, at Barclays and Lloyds the number of shares more than doubled, while NatWest's share count increased tenfold. The number of Close Brothers shares increased by 4% over the same span.

Standard Chartered had to raise money in a rights issue in late 2015. Its shares outstanding roughly doubled from 20 years ago. Since then, the bank's profits increased from a nominal level in 2016. The bank's problems at the time of the rights issue appear to have been greater than shareholders knew at the time. This year, the bank's net profit is expected to be more than $3 billion in 2023 and over $4 billion this year. The bank generated cumulative profits of nearly $16 billion and returned about half that amount to shareholders through dividends and share buybacks since the rights issue. This compares to a market capitalisation of around $20 billion as the bank's share price in dollars has moved roughly sideways since the rights issue. The quid pro quo of this frustrating refusal of investors to give credit to improvements at the bank is that it allows them to repurchase shares at around half book value and a mid-single digit multiple of earnings which is highly accretive to shareholder value. If the status quo continues, we estimate the bank is likely to repurchase around 40% of its shares in the 2019-25 period, a remarkable contrast to what we have become accustomed to seeing at banks.

The Fund has 2.3% of its assets invested in Hard-To-Value Securities. These are shares in companies where there is no active market in their securities. The Fund's Offering Memorandum gives the Fund's Directors discretion in how they are valued. I therefore provide at least an annual update on how these companies are performing and how their securities are valued in the Fund's portfolio.

Three of these investments are shares in formerly listed closed-end funds - two Better Capital funds managed by the turnaround doyen, Jon Moulton, and the other, Ashmore Global Opportunities (AGOL). During the year, AGOL returned $0.8 million to the Fund in two capital distributions, and the Directors wrote down the value of its holding in Better Capital 2012 by about 50% because of a deterioration in the performance of its last remaining holding, Everest Windows. These funds own one or a few remaining investments that are likely to be sold in the next couple of years, and they periodically report their NAV. They are valued at discounts to NAV ranging from 5% to 25% for their illiquidity. With a high degree of uncertainty, we expect these investments to produce higher returns than the Fund during their remaining life as they return capital to shareholders.

The Fund also owns shares in Management Consultancy Group, a previously listed company, which owns Alexander Proudfoot which performed below expectations last year. Camilla and I had a call a few weeks ago with the Chairman and CEO as the company is planning on having a rights issue in a few weeks to raise working capital that is required to move the business to a salable state in the next couple of years. We will take a decision shortly, after speaking to the major shareholder - a top-tier private equity fund - as to whether we will take up our rights or accept having our stake in the company diluted. The shares are valued at their last traded price. If they can “right” the business, the upside is very considerable. Taking up our rights will entail investing about £250,000.

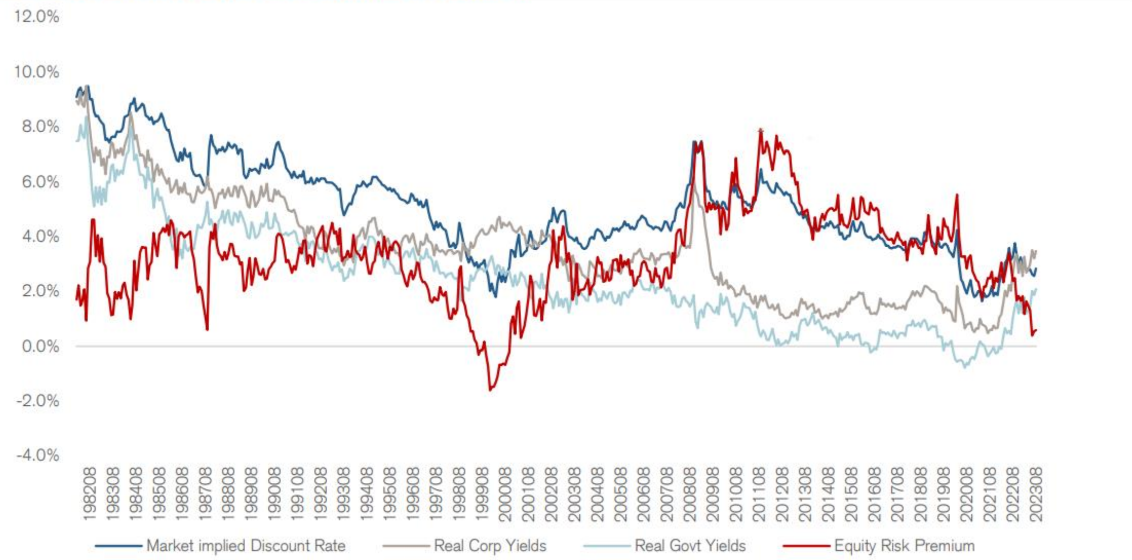
The remaining Hard-To-Value Securities are the Fund’s Russian investments. During the year, after taking legal advice, we sold the Fund’s shares in TCS for nearly $300,000. The CEO, Oliver Hughes, quit and the TCS founder, Oleg Tinkov, was forced to sell his controlling shareholding at a deeply discounted price after he criticized the invasion of Ukraine. His shares were bought by an oligarch. This is representative of a pattern whereby investors are being forced to sell businesses, either due to Russian pressure or Western sanctions, and people close to the Putin regime are enriching themselves by purchasing these shares at giveaway prices.

One of our three remaining Russian investments is preference shares in a Guernsey-incorporated company, Raven Property, which is the largest owner of modern logistics warehouses on the ring roads around Moscow. The business is performing well with nearly 100% occupancy and rising rents. At the moment it is impossible to remit money from Russia. In March 2023, the company paid the 3p quarterly preference dividend that was due in March 2022 plus 15% interest (an additional 0.45p) on the dividends in arrears which are cumulative and in priority to the ordinary shares. There are bids for the preference shares (with a par value of 100p and a 12% annual coupon) at a price of 10p. The Directors revalued the Fund’s preference shares from zero to 10p during the year. There are currently seven quarterly coupons of 3p each in arrears plus interest on the arrears so we are hopeful that there could ultimately be a significant uplift in the value of this investment.

The other two Russian investments are shares in Sberbank and GazpromNeft. The Fund previously owned London-listed GDRs in these two businesses but the GDRs were cancelled, resulting in their conversion to domestic shares. Both businesses are reporting record profits and paying handsome dividends which our custodian’s sub-custodian had been either refusing to accept or returning to the issuer, wrongly we believe. We have sought legal advice on the issue and observe that other funds managed by large Western institutions have been receiving dividends declared by the same companies, albeit in restricted S accounts in Moscow which cannot be accessed. Our custodian recently resolved this issue with the sub-custodian who should shortly be receiving Ruble dividends declared since the Ukraine invasion (totaling the equivalent of nearly US$2.5 million net of 15% withholding tax) in a S account. In line with most other funds that own these shares, we continue to value these shares and any dividend entitlements at zero. When the war in Ukraine ultimately ends, these two investments and accumulated dividends could be worth a considerable amount to the Fund. The risk is that Russia decides to “cancel” these shares, as has been mooted from time to time, in retaliation for Western central banks seizing Russia’s nearly $400 billion in foreign exchange reserves. It is a perverse consequence of the Russian sanctions that investors such as the Norwegian sovereign wealth fund and a number of large US defined benefit pension plans are effectively being punished by the financial weaponry of Western sanctions against Russia.

Last year, the Fund had $2 million in subscriptions and $19 million in redemptions. This is the tenth consecutive year that the Fund has had net redemptions. The Fund ended the year with net assets of $217 million. As I commented in this year's Chairman's statement for OAM Asian Recovery Fund, demand for equities tends to decline as prices decline, and vice versa. This is irrational, and we try to guide our clients to do the opposite, in many cases without success. For the past decade, US equities have produced the best returns for investors and appear to be the most popular asset class with most investors. However, they are also one of the most expensive asset classes compared to both history and other asset classes. The chart below shows the equity risk premium for US equities in red. This chart covers the past 41 years, but over the past century, the equity risk premium has fluctuated between 3% and 5% most of the time, with a lot of variation. The equity risk premium for US equities is currently close to zero which shows how unattractive the future return prospects are for US equities relative to both history and US bonds.

Figure 2: US Real Asset Yields and Equity Risk Premium



Source: HOLT, CS Economics. The ERP is solved for in two steps: 1) solve for the implied cost of equity: DR=(real cost of debt*US leverage)+(real cost of equity*(1-leverage)) and 2) solve for the ERP: ERP=Cost of Equity less real risk free rate

In contrast, the equity risk premium for European equities is much higher, and particularly for the sort of European value stocks that we own in the Fund. At year end, the Fund's vital statistics for its four segments were as follows:

Segment	**(% of NAV)**	**2023 P/E**	**Dividend Yield**	**Discount to NAV**
Market leaders	25%	10.9x	5.8%	
Deep value	31%	7.0x	8.0%	
Closed-end funds	17%			28%
Investment holding companies	24%		3.4%	51%

These valuations are cheaper than average throughout the Fund's history and exceptionally cheap compared to US equity valuations. Timing is impossible to accurately pinpoint, but cheaper valuations generally lead to higher-than-average returns and vice versa. As the Fund's largest shareholder, along with my wife, I am confident that after a decade of sub-par returns, the patience of our Fund's shareholders will be well rewarded. I am putting my money where my mouth is by making an additional subscription to the Fund at the end of this month.

Desmond Kinch, CFA
Chairman

Investment manager's report

In 2023, the main contributors to the Fund's performance were the car carrier companies in aggregate, Mytilineos, DP Eurasia, and Danieli savings shares. The main detractors were Yara, Close Brothers Group and Baker Steel Resources Trust. The Fund fully exited its investment in Mytilineos and sold some of its shares in the car carrier companies. It made new investments in UK investment trusts, Italmobiliare, Howden Joinery Group and Beerenberg, and added to its investment in Close Brothers Group. There is no shortage of attractive investments in our hunting ground.

The car carrier companies (Wallenius Wilhelmsen, Gram Car Carriers, Höegh Autoliners, Wilh Wilhelmsen Holding) performed well during the year. Together they returned 20% in USD terms. We sold $7.7mn worth of shares to maintain the Fund's exposure to these four names below 15%. The Fund received $1.6mn in dividends from these companies during the year. This niche industry has been in a supply and demand imbalance causing charter rates and freight rates to soar to all-time highs. The global orderbook now stands at 36% of the current global fleet. Orders are concentrated in the deep-sea fleet (vessels that carry 6,000 car equivalent units and above). The orderbook now represents 48% of the current deep-sea fleet. We have been keeping a close eye on development of the orderbook, prompting a visit to Oslo in mid-November to meet with the companies and better understand market conditions. The upsurge in EV exports from China, port congestion, lack of investment in port infrastructure to meet the increase of the global fleet, environmental regulations, and recycling of ageing vessels indicate that there will continue to be a shortfall of capacity in the medium term.

We believe these companies are still undervalued. Gram Car Carriers has chartered its ships on long-term contracts at current rates, giving it good revenue visibility. With low debt, the company is highly cash generative at these rates. Management is focused on paying as much cash to shareholders as possible. The company trades on a 16% dividend yield for 2024, and 0.88x the value of its vessels at current market prices for second hand vessels. Höegh Autoliners and Wallenius Wilhelmsen both trade at 0.7x on the same basis, and dividend yields of 27% and 12% respectively.

Höegh Autoliners has been well placed to capture increasing freight rates. Approximately 70% of its volumes are on long-term contracts and 30% at spot rates. It is in the process of renegotiating approximately 30% of its long-term contracts from rates below $50/cbm to rates above $100/cbm. On this basis, average net freight rates could increase by 15 to 20% in 2024. With high operating leverage and low debt we expect increased profitability in 2024 which is not reflected in consensus earnings estimates. In the meantime, management has been optimising the fleet. It has sold middle-aged ships at attractive prices, using the proceeds to finance the modern vessels on order. Older ships in the fleet are fully depreciated and secure good rates in the current market.

Wallenius Wilhelmsen is renegotiating contracts from a much stronger position. Previously, contracts stipulated that Wallenius Wilhelmsen would transport a percentage of a car manufacturer's exports. Terms are changing to specified volumes which will enable Wallenius Wilhelmsen to maximise its capacity. Wallenius Wilhelmsen's average contract length is three years. Like Höegh Autoliners, it is renegotiating contracts for 2024 at much higher rates. Due to the longer-term nature of its contracts we don't expect its rates to peak as quickly as Höegh Autoliners', but to remain at higher rates for longer and increase volumes for its logistics business.

The Fund's largest holding is Wilh Wilhelmsen, the family holding company of the Wilhelmsen family. Wallenius Wilhelmsen makes up 47% of Wilh Wilhelmsen's NAV. The company disclosed its own calculation of net asset value for the first time, providing the market with a useful reference. Wilh Wilhelmsen continues to trade at a discount to NAV of more than 50%. The company repurchased 300,000 A shares and 100,000 B shares in May. Increased cash distribution from Wallenius Wilhelmsen may allow the company to buy back more of its own shares, which at this discount is highly accretive to NAV per share. Alternatively, it is likely that it will continue to invest in the other businesses, Wilhelmsen Maritime Services and New Energy, which make up 23% and 9% of the net asset value respectively. Further development of these businesses will help to smooth out the effect of Wallenius Wilhelmsen's cyclical exposure. Meeting with Thomas Wilhelmsen, the CEO of Wilh Wilhelmsen and the fifth generation of the Wilhelmsen family to run the company, was a highlight of the year, and reassured us that our interests are aligned.

We sold the Fund's shareholding in Mytilineos following strong performance, but also on corporate governance concerns. The investment in Mytilineos generated an average annual return of 26.7% over the 7 ½ year holding period, growing to the largest position in the Fund. Over that period, Mytilineos has transformed into a vertically integrated energy and metals powerhouse. The combination of long-term, low-cost natural gas supply and efficient electricity production with aluminium and alumina production sold forward at record high prices resulted in the company's revenues increasing 137% in 2022 and net profit nearly tripling. Long-term contracts on natural gas and forward selling aluminium and alumina mean that derivatives trading is an increasingly important part of Mytilineos' operations and makes it more challenging for investors to forecast the performance of the company.

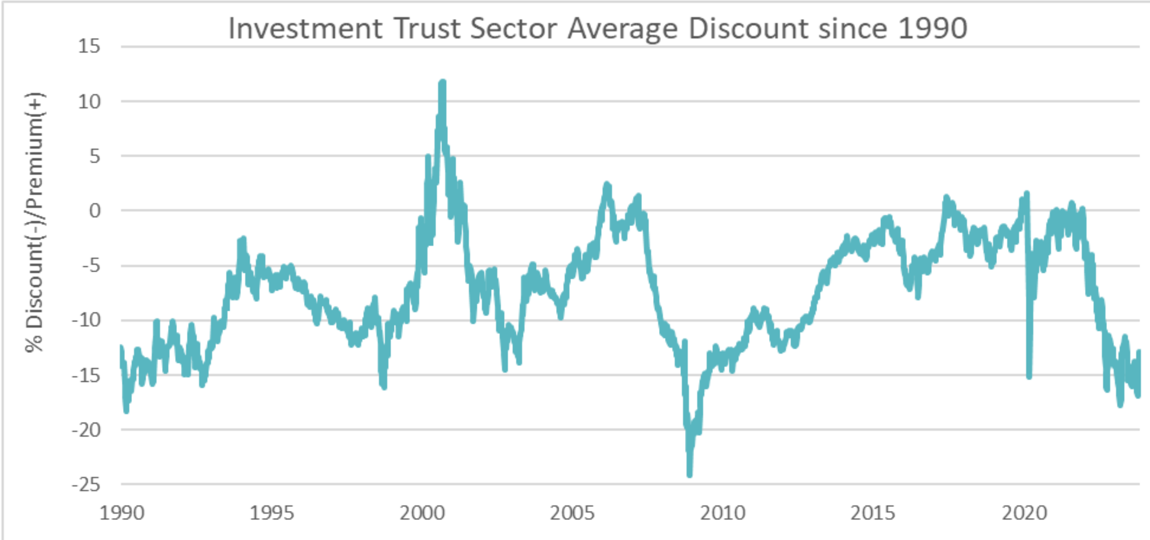
Alignment of interests – when executive management, controlling shareholders and minority shareholders share the objective of the long-term, profitable development of the company for the benefit of all stakeholders – is an important part of our investment strategy. A clause in Mr Mytilineos' service contract that was negotiated in 2018 provided for a one-time bonus equal to 5% of the increase in market capitalization of the company from the first day of trading on the Athens stock exchange in 1995 to the market capitalization at the time of termination of the contract. During 2022, the company announced a spin-off of the Infrastructure segment and Concessions segment, bringing an end to Mr Mytilineos' current service contract and precipitating a one-time bonus payment of €140 million to him. As both CEO and Chairman, Evangelos Mytilineos exerts significant control over the company. He also owns 27% of Mytilineos. We wrote to the company that we were dismayed by the excessive one-time compensation to the CEO and that such compensation does not conform with our assessment of strong corporate governance. We sold the Fund's shares having lost trust in the corporate governance and independence of the Mytilineos Board.

Jubilant FoodWorks, which owns and operates fast food chains in India, including holding the master franchise for Domino's Pizza in India, Nepal, Sri Lanka and Bangladesh, recently announced a takeover offer for DP Eurasia. DP Eurasia is the Domino's Pizza master franchisee in Turkey, Georgia and Azerbaijan. Under the leadership of Aslan Saranga the business has performed extremely well through the COVID pandemic and hyperinflation in Turkey. A new business, COFFY, has been growing strongly, further demonstrating management's entrepreneurial skill. Jubilant FoodWorks recognized this, buying nearly 55% of DP Eurasia's shares before launching a takeover offer for the remaining shares at 85p per share. Along with other minority shareholders, we considered this price significantly below fair value. Jubilant FoodWorks increased the offer to 95p, which again we considered opportunistic. Eventually, Jubilant FoodWorks offered a more palatable 110p per share. Although we believe this offer still undervalues DP Eurasia, at a 60% premium to the closing share price before the announcement of the original 85p offer, it is a more comfortable exit price and preferable to remaining invested in a delisted company. DP Eurasia was an excellent investment for the Fund. We first invested in January 2020 buying shares at just under 50p per share. Later that year we added to the investment below 40p per share. In 2021, we sold a portion of those shares at 82p. In early 2023, the share price fell and we increased the investment by 50% buying shares at 40p, after which we owned 3.9% of the company. At the sale price of 110p per share the investment has generated an average annual return of 40% over the four-year holding period. The proceeds of roughly $8m will result in a realized gain of $5m.

A long-term holding of the Fund, Danieli savings shares performed well in 2023, up over 50%. Danieli manufactures turnkey steelmaking plants and produces specialty steels. Danieli's steel plants are the technological leader in electric arc furnaces, direct reduced iron production plants and long product casting and rolling plants. Danieli's plants are a cornerstone of the decarbonization process of steel production. Electric arc furnaces (also known as mini mills) have high flexibility and energy efficiency. Direct reduced iron production plants reduce iron using natural gas instead of carbon coke, Danieli's plants can also use up to 100% hydrogen as the reducing agent, or in combination with natural gas. With a record order intake and backlog, and improved margins on those new orders, Danieli is well placed for strong results. In addition, the company has net cash equal to 80% of its market capitalisation. Management considers a certain level of cash necessary to fund the order book. Deducting approximately half the net cash from its market capitalisation, the savings shares look very cheap at 3.3x this financial year's estimated earnings.

Proceeds from the sales of Mytilineos and the car carrier investments were used to fund new positions in investment trusts, Italmobiliare, Howden Joinery and Beerenberg. Desmond has already discussed Italmobiliare in detail in the Chairman's report so I will not go into further detail other than to say I use Caffè Borbone beans for my daily brew!

I outlined the investment case for UK Investment Trusts in the November newsletter. On average, investment trusts recently traded at the widest discount since the Global Financial Crisis.



The Fund invested $14.8mn in five investment trusts in the second half of 2023. The largest investments were Pantheon International, Oakley Capital Investments, RTW Biotech and Aberforth Smaller Companies. Pantheon International and Oakley Capital Investments invest in private equity. Pantheon International invests in a diversified portfolio of private equity assets managed by third party managers globally. Oakley specialises in private, fast-growing, mid-market technology, consumer, education and business services companies across Europe. Both trade at historically wide discounts despite excellent track records. Pantheon International has delivered NAV per share growth of over 12% annually since inception in September 1987. The shares have generated a 10.7% return for shareholders over the same period. At a 40% discount, the Fund essentially paid 60 cents on the dollar for a high-quality private equity portfolio. Oakley's NAV per share has grown 13% per year on average, whilst the share price has returned 10.6%. Performance over the past five years has been particularly strong, with the shares delivering an annual return above 20%. Share buybacks and share purchases by management reinforce the value on offer. Pantheon International recently bought back 9% of its shares at a 35% discount, resulting in an uplift to NAV per share of 3.5%. Peter Dubens, the founder and a director of Oakley Capital Investments has bought £2.4mn worth of shares in the last quarter, increasing his ownership to 11%.

Aberforth Smaller Companies Trust invests in UK small caps with a value focus. UK equities are undervalued relative to global equities, but within UK equities small caps are particularly cheap. Its portfolio trades at a price to earnings ratio of just 6.9x, near historical lows for the Trust. Despite the cheap valuation, the underlying companies have robust balance sheets. There has been an uptick in opportunistic M&A on these low valuations, with offer prices at a 50% premium on average. Aberforth Smaller Companies is well-established with a 33-year history of investing in UK small caps. It has a diversified portfolio with £1.2bn in net assets. Over this period, it generated an 11.5% average annual return for shareholders. We have been buying shares at a 10% discount to NAV, effectively buying the portfolio at a price to earnings ratio of 6.2x. Over the past 5 years, Aberforth has repurchased 7% of shares outstanding for cancellation at a discount to NAV.

The biotech sector has been out of favour with the market falling 70% from February 2021 to October 2023 despite high levels of innovation. M&A deals were relatively scarce in 2021 and 2022, but with large piles of cash and significant patents soon expiring, Big Pharma is on the look out for acquisitions. Since December there has been a flurry of M&A activity.

The Fund invested in RTW Biotech at an average discount to NAV of 25%, which we consider highly attractive given the strong track record and depressed biotech sector. RTW Biotech invests in biotech and medtech companies with a long-term investment horizon across the full life cycle, in both private and public markets. The manager, RTW Investments, LP has a specialised research team with expertise across diseases and modalities. It identifies promising companies at an early stage, guiding them through development, through to IPO and as public companies. Biotech is characterised by binary outcomes. RTW typically adds to its investment as milestones are met and confidence is gained. RTW Investments has a strong track record, with the main private fund managed by RTW generating an average annual return in excess of 20% over the past 14 years. RTW Biotech's largest holding, Prometheus Biosciences was taken over by Merck at a 75% premium to its previous closing price in 2023. In November, RTW Biotech announced a merger with Arix Bioscience. Assuming the merger goes through as planned, RTW Biotech's net asset value will increase from approximately \$350mn to \$570mn giving it increased scale and cash to deploy at an attractive point in the market.

Howden Joinery is a new position for the Fund. Initially, we looked at several companies in the UK housebuilding sector but decided there were too many uncertainties and high political risk. We looked at adjacent sectors and recognised Howden Joinery's unique position as the UK's number one trade kitchen supplier with a decentralised, entrepreneurial structure. Kitchen installations have some relationship with the housing market but are less tightly correlated with the housing market than general home improvement spending. High interest rates are likely to encourage homeowners to renovate rather than buy a new house. Howdens operates a niche business focused on the tradesman. Its in-stock availability proposition has set it apart from competitors. Vertical integration - from manufacturing to distribution - allows it better control of supply chains, product quality and costs. Depot managers have autonomy to set discounts locally and control inventory based on local preferences. I visited some depots and saw first-hand the high level of engagement of depot staff. Depot staff are incentivised by a share of the profits of the depot. The company is highly profitable and has a strong balance sheet with net cash (excluding lease liabilities). Management has displayed strong capital allocation, returning excess cash to shareholders through buybacks or special dividends. We believe there are multiple levers for growth and margin expansion. We bought shares at an attractive valuation for a high-quality business, and we have continued to take advantage of volatility in the share price.

The Fund participated in the IPO of Beerenberg, a small capitalisation Norwegian stock. At first glance, it does not appear particularly exciting: it is an insulation, scaffolding and surface treatment service and insulation product provider on the Norwegian Continental Shelf. However, it has solid revenue growth visibility, sustainable market-leading operating margins and high cash conversion. The IPO allowed Beerenberg to refinance its debt as well as repay a portion of it, significantly reducing its interest payments. Management is guiding towards full distribution of available cash flow as dividends. After meeting with the CEO in Oslo, we added to our investment at prices below the IPO price. Even on conservative assumptions, we estimate exceptionally attractive IRRs in our investment case.

We added to the Fund's investment in Close Brothers Group, nearly doubling the position. The share price fell nearly 25% in 2023 on short term macroeconomic concerns and provisions for a poor acquisition by the previous CEO. We view Close Brothers Group as a high-quality, disciplined bank. It operates in niche sectors and takes time to understand its customers' businesses resulting in high net interest margins and low non-performing loans. It is focused on delivering strong returns through the cycle, often outperforming in weak markets due to its prudent approach to lending. With a 10-year average ROE of 13.7%, we consider the shares very undervalued at 0.7x book value.

Despite receiving a large dividend from Yara**,** the stock was a detractor from the Fund's performance. The share price fell 18.6% in USD terms during the year, including dividends it generated a total return of -6.8%. The Fund's longest standing investment, it has generated a 12.6% average annual return in USD since its spinoff from Norsk Hydro in March 2004. Following exceptional management in a tough environment of rising energy prices in 2022, operations were more difficult to manage during 2023. This was due to lower fertilizer prices, general inflation and unfavourable foreign exchange movements, despite lower energy costs. Fertilizer is predominantly a commodity business. Capacity additions are falling and as a result, lower supply growth is expected from 2024, indicating a shift to a demand-led market that should support better fertilizer prices. Yara has been positioning itself as a premium fertilizer supplier. These premium products are more targeted, delivering water and mineral-use efficiency and promoting improved soil health. They are key to more sustainable agriculture to feed a growing global population from finite agricultural resources. Yara trades at undemanding multiples of this year's estimated earnings. Further, as the biggest ammonia trader globally it is uniquely positioned in the development of green ammonia as a key fuel source. Whilst it is difficult to forecast its development in the near term, Yara is positive about its prospects, and we view it as a free option in the investment case.

Baker Steel Resources Trust's share price fell 10% during the year, and now trades at a 41% discount to NAV. It has been a difficult year in natural resources and mining. Financing has been hard to secure for many of BSRT's projects. Banks are reluctant to lend to such projects on ESG concerns, despite high demand for production and low operational risk. A case in point is the unsecured convertible note with a coupon rate of 21% to bring an Australian coking coal mine to production. This mine is already licensed, the coal seam is easy to access in an open pit, and existing infrastructure will lower production costs making it cash flow generative from an early stage to fund production launch at a second mine. Another project, located in the UK, has the second largest tungsten resource globally. It had to conduct a dilutive rights issue to start the mine. Tungsten is used in semiconductors, renewable energy, military operations and nuclear fusion power. Eighty percent of the world's supply of tungsten is controlled by China, making this an important strategic resource. As a number of BSRT's projects secure funding to start production and become cash generative we expect BSRT to be able to distribute cash to shareholders, either by way of share buybacks or dividends.

The Fund looks attractive on multiple levels. Valuations are cheap on an absolute and relative basis, and many of the sectors in which the Fund is invested are out of favour, with low underlying valuations or wide discounts to NAV, as well as some stock-specific catalysts. If the DP Eurasia takeover closes as expected at month end, the cash inflow will be deployed quickly, as we have a shortlist of compelling prospective investments.

Camilla Anderson, CFA
Investment Manager