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OAM European Value Fund

14th January, 2025

Dear Fellow Shareholder,

Chairman's report

Last year, the Fund's NAV/share increased by 3.9% compared to a 1.5% increase in its benchmark, the MSCI Europe (US$) index inclusive of dividends, net of withholding tax. Over the Fund's 22 years of existence, its NAV/share increased 590%, compounding at 9.2% per annum. By comparison, the Fund's benchmark increased by 122% or 3.7% per annum. The benchmark figure used for comparison does 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. 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, the iShares MSCI Eurozone ETF (EZU). Last year, EZU returned 1.4% inclusive of dividends, net of withholding tax.

It is difficult convincing individuals or institutions to invest in European equities. Socialism is rife in most of Europe. Taxes are high. Regulation is often stifling. Currencies have been in a long-term downtrend against the US dollar. These negative factors have several offsetting positive factors that are ignored by most investors. Withholding tax on dividends is lower in all European countries in which we are invested than they are in the US, and in the case of the UK, they are zero. When Warren Buffett sells shares in Apple, or any of his other investments, Berkshire Hathaway pays capital gains tax (CGT). Many wealthy European families are able, under the tax codes of their country, to sell investments within their listed holding company and reinvest capital free of CGT. Currencies move in long cycles and European currencies are cheap on a purchasing power parity basis against the US dollar. We see this whenever we are in the UK or Europe compared to the US (more on this in a bit). The most positive aspect of investing in European equities is that they are much more cheaply valued than comparable companies in the US. US equities are currently trading at generational high valuations, whichever valuation measure you choose. In contrast, UK equities for example typically trade at less than half the P/Es of comparable US companies and near generational lows (more on this too in a bit). Another rarely discussed differentiation is that shares repurchased by companies in the US are often reissued to management through generous stock option programmes which raises agency (management)/principal (shareholder) questions, whereas in Europe, repurchased share are generally cancelled, in most cases enhancing intrinsic value per share.

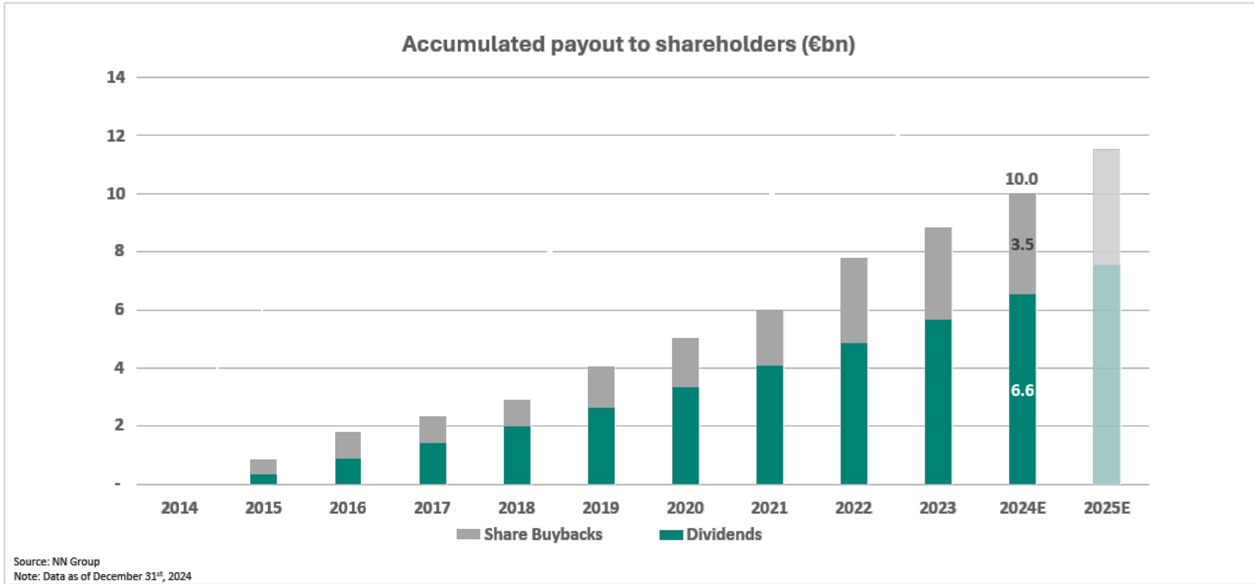
Nearly a third of the Fund's assets are invested in five companies. To give a better understanding of how cheap these companies' shares are today, I will provide some insight into each to illustrate how undervalued they are, for no good reason we believe, given the quality of the businesses and their management.

Wilh Wilhelmsen is the Fund's largest holding. It is the family-controlled investment holding company of the Wilhelmsen family, one of the leading Norwegian shipping families for generations. The company is both an efficient operator and excellent capital allocator. Over the past 25 years, the company's shares generated a compound annual return of 11.5% per annum in US dollar terms. We started buying shares in 2015 and the internal rate of return (IRR) on our investment to date is 13% per annum in US dollars. Its largest investment is a 38% shareholding in Wallenius Wilhelmsen, a global leader in the car carrier shipping market, which accounts for 43% of Wilh Wilhelmsen's estimated net asset value (NAV). We also own shares in Wallenius Wilhelmsen and have or had very profitable investments in this company and two other Norwegian car carrier businesses. Camilla will discuss these investments in more detail in her Investment Manager's report which follows. We think that Wallenius Wilhelmsen is priced to deliver an attractive future return to its shareholders, and the same applies to the valuation of Wilh Wilhelmsen's other investments. Given its track record and the attractive valuation of its underlying holdings, we think that Wilh Wilhelmsen's shares should deliver a very attractive future return. The current share price is at a 50% discount to NAV which we think is absurd. The company evidently agrees and last year and this year, they conducted tender offers to buy back their own shares. Furthermore, they have been using some of their prodigious cash flow to increase their shareholdings in Treasure ASA, the listed holding company for their investment in Hyundai Glovis, and unlisted investments in maritime services.

Standard Chartered is the second largest investment. Although its shares are listed in the UK, this is one of the leading banks in Asia with a smaller presence in the Middle East and Africa. It has a very strong banking franchise, historically in trade finance, but expanded over the years to wealth management, investment banking, and capital markets, a natural extension given its important relationships with many of the business leaders in Asia, the Middle East and Africa. They successfully navigated both the Asian Financial Crisis and the Global Financial Crisis, generating a compound annual return for shareholders of 17.5% in US dollar terms in the two decades from 1990-2009, a period when many of the world's leading banks and many of Asia's leading banks had massively dilutive rights issues. A few years later, Standard Chartered came unstuck due mainly to some large bad debts and major sanctions and regulatory violations which resulted in large fines and expensive remediation. Bill Winters was brought in to turn around the bank in 2015. Bill Winters first came to our attention in Gillian Tett's excellent book *Fool's Gold*. He was more than likely Jamie Dimon's heir apparent at JPMorgan. We invested in Standard Chartered soon after Bill Winters' appointment as CEO, too early as it turned out. The situation there was worse than shareholders had been led to believe, and it seems fair to say, worse than the new CEO anticipated. In subsequent years, Bill Winters fixed the bank's problems and the bank is performing well with further improvement anticipated. They are targeting a 13% return on equity in 2026 and have a strong capital adequacy ratio. It makes no sense to us that the shares are trading at 0.6 times 2025 estimated tangible book value per share (P/B) and 7 times estimated earnings (P/E), roughly half the P/E of JPMorgan and a third of its P/B, particularly given that Standard Chartered is likely to have much higher EPS growth over the next few years. Over the past six years, the bank repurchased and cancelled 27% of its shares which was, and will continue to be, very accretive to EPS and book value per share whilst the shares trade at such a low valuation. Bill Winters gives the strong impression that he is very dissatisfied

with the share price and does not want to leave until the market recognizes the work he has done to build value for shareholders.

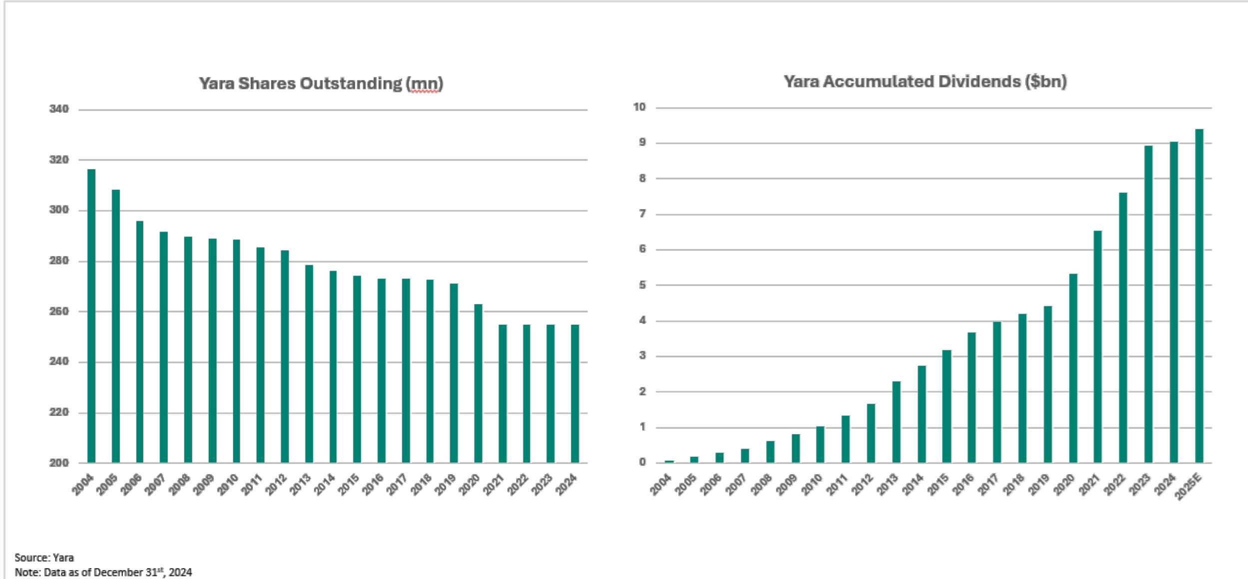
NN Group is the Fund's next largest investment. We owned shares in this Benelux insurance company since it was spun off from ING in 2014. NN is the market leader in Benelux life and P&C insurance in the Netherlands as well as a leader in pension and retirement savings products, as well as being a leading insurer in some other European markets. We generated an IRR of 12.7% per annum in US dollars from this investment which is a bit higher than the shares generated since the spin-off by purchasing shares opportunistically at attractive prices. The expected future investment return from this investment is similarly alluring. The shares look very undervalued on a 2024 estimated P/E of 7 and a dividend yield of 8%. Apart from paying an attractive dividend, the company has been using its cash flow to buy back its shares steadily and retiring them. The chart below shows the accumulated payout to shareholders over the past 10 years which is similar to NN's current market capitalization of €11.5 billion.



The fourth largest investment is shares in Hansa Trust and Ocean Wilsons, with the former accounting for most of our investment in this stable of companies controlled by the Salomon family in the UK. Hansa and Ocean Wilsons have a complicated structure. Ocean Wilsons owns 56.5% of Wilson Sons, a Brazilian ports business, as well as an investment portfolio worth $328 million managed by Hansa Capital. Hansa Trust in turn owns 26.5% of Ocean Wilsons as well as an investment portfolio worth $430 million managed by Hansa Capital. Hansa Trust has two classes of shares: non-voting A shares and ordinary shares. The Salomon family maintains control, owning more than 50% of the ordinary shares. William Salomon has been an excellent steward of the family's capital for decades after succeeding his father. Since 1992, Hansa shares compounded at more than 10% per annum in sterling and Ocean Wilsons' by more than 15% per annum. In spite of the excellent track record, Ocean Wilsons shares trade at a 36% discount to NAV and Hansa shares at a look-through 46% discount to NAV. We believe that there is now a catalyst in place to simplify the structure, improve liquidity in the shares, and as a consequence, significantly narrow the discount to NAV at which the shares currently trade. Recently, Ocean Wilsons announced that it agreed to sell its shareholding in Wilson Sons to MSC for about US$600 million, net of capital gains tax, with the transaction expected to close in the second half of this year, subject to regulatory approval.

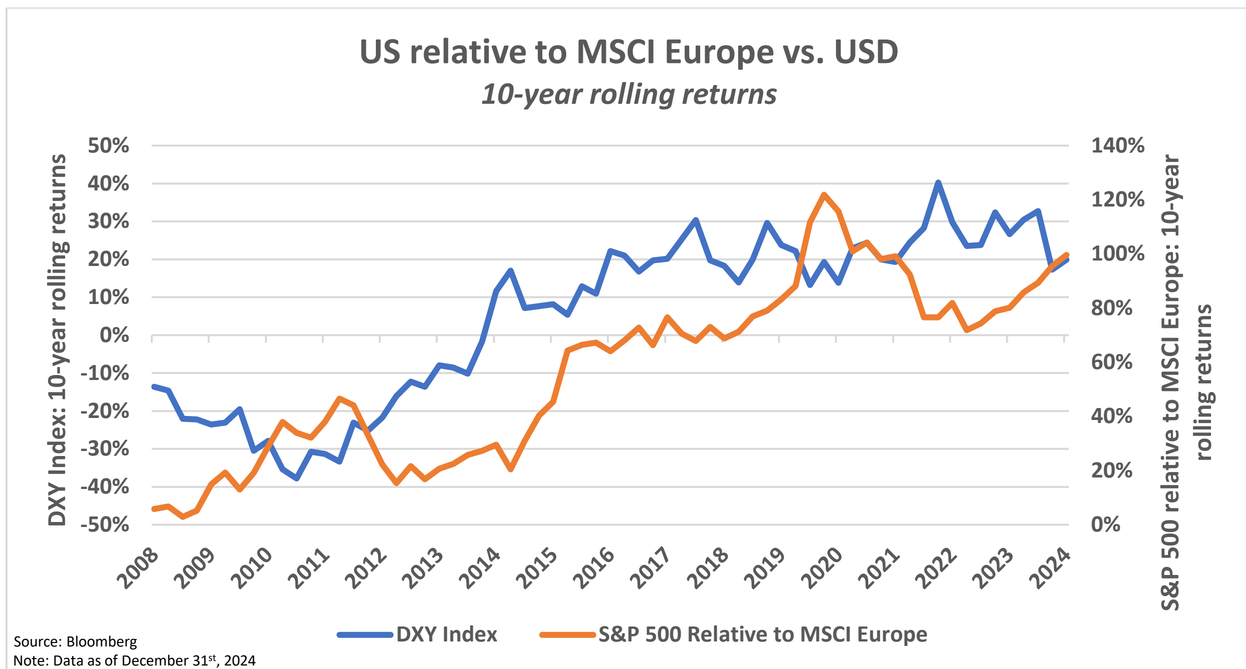
Ocean Wilsons has been a fantastic investment for Hansa, returning 125x since 1992! They announced that once the Wilson Sons transaction closes, they intend to return a significant portion of the proceeds to shareholders, Hansa being the main beneficiary. Camilla and I spoke to William Salomon about simplification of the group several times. Ultimately, the details of what happens after the transaction closes will be up to him, but our observation is that he has been an excellent capital allocator and we suspect that he would like to pass on a more simplified company to his heirs whose value is better reflected in the market as part of his legacy.

Yara International, one of the world's leading manufacturers and marketers of premium crop nutrition products, has been a large holding in the Fund since it was spun out from Norsk Hydro in 2004. Fertilizers is a cyclical business, but one that is crucial to our existence. Yara has been an excellent operator, never losing money during the past 20 years. They have also been an excellent capital allocator, paying steady, generous dividends and buying back and retiring shares as shown in the charts below. For reference in terms of Yara's dividends, Yara's market capitalization is less than $7 billion. Over more than 20 years, the Fund generated an IRR on its investment of 13.4% per annum in US dollars, adding to our investment when we viewed the shares as undervalued and trimming when the shares were more fully valued. We think the shares are very undervalued currently at a share price in US dollars of $27. Yara's book value per share is just over $30. Their average return on equity (ROE) over the past 20 years was 17%. Going forward, we expect ROE to average closer to 12-14% because of the competition from cheaper US natural gas, the main input for nitrogen fertilizer, and cheap exports of fertilizer from Russia now that most of Russia's natural gas can no longer be sold to Europe. This roughly accords with Yara's longstanding objective to generate a through-the-cycle return on invested capital (ROIC) of at least 10%, which translates into a ROE of roughly 12% assuming Yara's current capital structure and interest cost. Yara's shares trade at 13 times estimated 2024 earnings, but we think these are cyclically depressed earnings. We estimate current normalized or cyclically-adjusted earnings at around $4 so if we are right, less than 7 times normalized earnings is a very cheap valuation for a global market leader that has a history of generating strong returns for its shareholders.



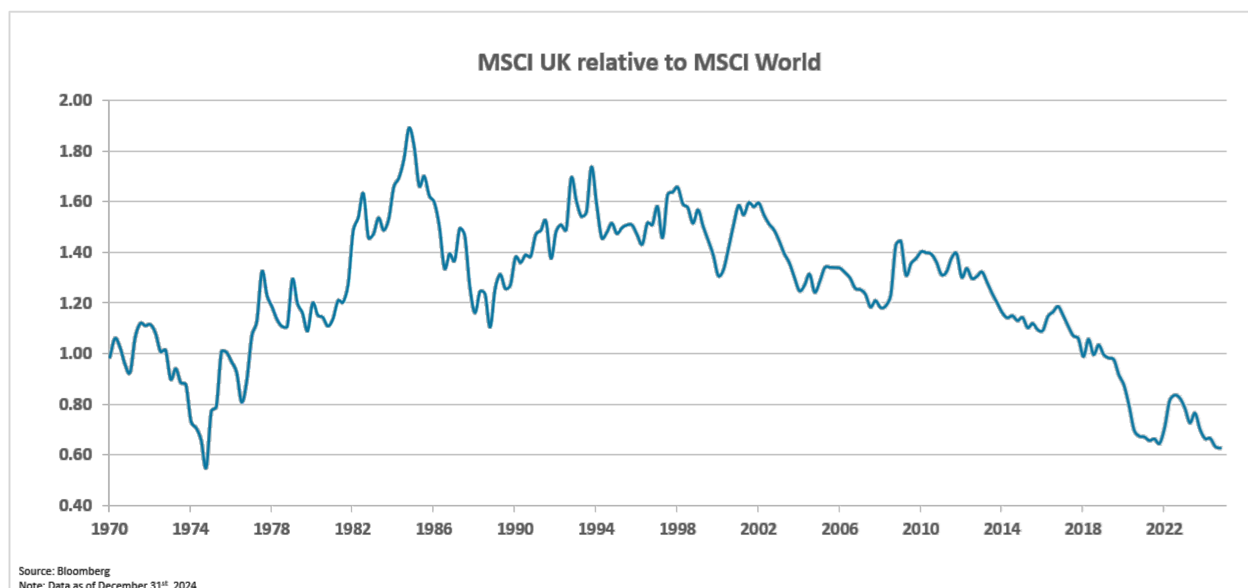
Having read this analysis of our largest holdings, hopefully you share our enthusiasm and view our goal of generating returns for our shareholders of 10% per annum over the next 5-10 years as realistic. That is likely to prove a great return over the next decade if achieved. In October, Goldman Sachs estimated that US large cap equities are likely to return only 3% per annum, and respected investment managers like GMO and Research Affiliates have even lower estimates of future returns for US equities. It seems that everyone is overweight US equities after a 15-year period in which the US equity market beat the rest of the world in all but 2 years. The MSCI World index is now represented by an all-time high 73% in US equities while non-US equities are being ignored by all but a few investors such as you! Market leadership undergoes secular shifts over long cycles and anyone who believes that American financial exceptionalism will last ignores the lessons of history.

Part of the US dollar return that our Fund delivers to shareholders is determined by currency rates. Historically, due to the importance of capital flows, a strong US dollar is highly correlated with US equity market returns versus European equities as shown in the chart on the following page. In other words, European equities perform well in both absolute terms and relative to US equities when the dollar is weak. The dollar moves in long cycles, and we think there is a decent likelihood of the dollar being weak against European currencies over the next 5-10 years. In 2007, sterling rose above 2:1 versus the US dollar when London was considered a leading global city and financial centre, but the UK and Europe were expensive places to visit then. The converse is true today. Back then, there were about $40 billion in IPOs in London. Last year, that figure shrunk to $1 billion, less than Oman or Luxembourg! We are confident that the UK will recover in time as I will explain shortly. If European currencies gain against the dollar, our goal for returns in US dollars could prove conservative.



The case for UK equities looks dire now under the new Labour government's policies. That was also the case in 1974. In the summer of 1974, my family moved to England for my brother and I to start prep school. I clearly remember my father watching an interview with Tony Wedgewood-Benn and exclaiming "What have I done?" There were probably a few choice words interspersed. As the chart below of the

MSCI UK equity index in sterling relative to the MSCI World index shows, that moment of darkness (literally) proved to be one of the best times to invest in UK equities. We brave souls have been increasing the Fund's UK equity exposure of late at what we consider to be very attractive valuations.



We do have concerns to be sure. Close Brothers, a UK niche lender with a successful track record, has been a long-term holding of the Fund. It plays a vital role in financial intermediation in the UK. Last year, it was the biggest detractor from the Fund's performance. Close Brothers and other auto finance lenders came under scrutiny from the financial sector regulator (FCA), the financial ombudsman, and the Courts. We have high regard for Close Brothers' CEO who has always been candid and honest with us. Rather than go into the laborious details of what has taken place, I will quote Charlie Nunn, the CEO of Lloyds Bank, the largest UK car finance provider, in a recent article in the Financial Times: *"What is unique here and for the UK relative to other economies is that we have a legal decision … that is at odds with the last 30 years of regulation. Investors are telling us they're concerned about the uncertainty that …. it creates an investability problem."* Close Brothers has appealed certain rulings to the Supreme Court, the highest Court, and a ruling will likely be given this year which will have an impact on the FCA's decision on compensation to consumers and give us more visibility on the cost to Close Brothers. On anything other than a worst case scenario, Close Brothers' shares are extraordinarily cheap. The Board and senior management have prepared the company well to try to avoid a rights issue which we view as unlikely, but possible. That experience has somewhat tempered our enthusiasm, and likely that of others, for undervalued UK equities.

That jarring experience aside, we think UK equities are a much better way of participating in any UK recovery than UK residential property which has been inflated by falling interest rates this century and the preferential exclusion of one's primary residence from CGT. The average price of a residential property in the UK increased from 4x to 8x average earnings over the past 25 years, and in London from 5x to 12x. Even though high-end residential property prices in London have gone sideways in sterling terms at best for the past 10 years, and lost money in US dollar terms, it is still not attractively priced. In contrast, the FTSE 100 index of UK equities barely increased over the past 25 years and UK equities are

much cheaper in terms of multiple of earnings than they were 25 years ago. Camilla will explain further how we have been investing in UK equities.

Now on to a few housekeeping matters. The Fund has 1.5% 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. Two of these investments are shares in formerly listed closed-end funds - Better Capital fund managed by the turnaround doyen, Jon Moulton, and the other, Ashmore Global Opportunities (AGOL). During the year, AGOL returned $0.5 million to the Fund and we expect it and Better Capital to each sell their last remaining investment this year. The funds are valued at discounts to NAV of 15% and 25% for their illiquidity. We expect a small uplift to their carrying value in each case when they make their final distributions. The Fund also owns shares in Management Consultancy Group, a previously listed company, which owns Alexander Proudfoot. We anticipate Proudfoot being sold within the next two years for a price which should result in our Fund getting a meaningful amount more than the investment's current carrying value.

The remaining Hard-To-Value Securities are the Fund's Russian investments. One of our three remaining Russian investments is preference shares in Raven Property which is the largest owner of modern logistics warehouses on the ring roads around Moscow. The company recently redomiciled to Abu Dhabi from Guernsey. At the moment, it is impossible to remit money from Russia though there is a slim, in our view, chance that could change when Trump is inaugurated. Meanwhile there are dividends in arrears which are cumulative and in priority to the ordinary shares that carry penalty interest for unpaid dividends. There have been transactions in the preference shares (with a par value of 100p and a 12% annual coupon) so we are carrying this investment at a price of 10p which reflects recent transaction prices, and not accruing past dividends and penalty interest. 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 are held by the sub-custodian of our custodian in a non-accessible, restricted S account in Moscow. We spent considerable time trying to ensure that we retain clear title to these investments and the accrued dividends. If sanctions end and we are ever able to get par value and accrued dividends for our Raven prefs and sell our Sberbank and GazpromNeft shares at the current Moscow Exchange price, convert the resulting rubles to dollars, and repatriate the proceeds, these investments could be worth about $20 million to the Fund. In the meantime, the Directors have determined that the two Russian holdings and their dividends should be carried at zero and the Raven prefs valued as aforesaid until circumstances change.

Last year, the Fund had $2.6 million in subscriptions and $11.7 million in redemptions. This is the tenth consecutive year that the Fund had net redemptions. This has been a common problem for UK and European equity investment managers. When I worked in London 40 years ago, UK pension funds had about 65% of their assets invested in UK equities. Today, that figure is around 4%. In contrast to the US where retail participation in the market is at a record high and over 60% of households own equities and US equities are a record percentage of household assets, UK retail investors have been net sellers of equities for years and only about 10% of UK households now own equities, down from 25% at the start of this century. It feels like there is no one left to sell, and private equity firms and foreign buyers are acquiring companies cheaply while others are moving their listing to the US to get a better valuation for

their shares. We think this is a much better than average time to invest in European equities and generate superior returns so we are making a strong effort for the first time in many years to attract new inflows.

The Fund ended the year with net assets of $216 million. I subscribed for more shares in the Fund early last year. There is an unusually strong alignment of interest between the Fund's shareholders and its directors and employees. The directors and their spouses, employees of the Manager and their spouses, either directly or indirectly through holding companies or trusts, own 26.5% of the Fund's shares. 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 should be well rewarded. To put the past decade's sub-par returns in perspective, the Fund contended with a de-rating of European equities and currency devaluation against the dollar, neither of which we expect to recur over the next decade. The average P/E of the operating businesses in which the Fund owns shares is currently barely over 8x 2024 estimated earnings, which is cheap in absolute terms, relative to the Fund's history, and about 26% lower than it was 10 years ago. If we take a basket comprised of 60% euros, 20% sterling and 20% Norwegian krone as a crude approximation of the currency denomination of the Fund's investments, currency caused a 2.4% per annum drag to returns over the past decade. Without these two drags to returns, instead of the Fund's NAV appreciating by 88% or 6.5% per annum over the past decade, it would have roughly tripled and returned about 11.8% per annum, adjusted to remove these two factors (P/E de-rating & currency depreciation). This is a rough approximation of the contribution to returns over the past 10 years from earnings per share (EPS) growth plus dividends net of withholding tax. It is the first time we have estimated the effects of currency depreciation and portfolio P/E de-rated on the Fund's NAV return which I think is very illuminating. As a reminder, over the very long run, the return of equities should be very close to EPS growth plus reinvested dividends. P/E re-rating or de-rating and currency variation cause returns to drift, sometimes quite far, from this underlying return over shorter time periods, even as long as a decade.

The currently very attractive valuation of European equities and currencies, combined with the adjusted, underlying return for the past decade (removing currency depreciation and P/E de-rating) help explain why we feel confident that the Fund can deliver attractive absolute returns. We expect the Fund's return to exceed those of comparable ETFs, and in particular US equities which have been the only game in town for more than a decade. Patience is key as no one knows when this divergence between US equity valuations and the rest of the world will return to a historically more normal relationship. Wall Street is giddy with excitement about the prospects of a Trump/Musk presidency. We think this euphoria may be misplaced, in the same way that it was misplaced when sterling traded at more than 2:1 against the dollar and Japanese equities dominated the world in the late 1980s.

One last point is that the risk of investing in equities is lower when valuations are lower, as they currently are in Europe, and as a value fund, our valuations are well below average equity valuations in Europe. One measure of risk is how well a fund does relative to its benchmark in down markets. The Fund now has over 250 data points of monthly returns, and that is during a period where for most of the time, value stocks underperformed markets by a very wide margin. In down months, the Fund's NAV outperformed the benchmark index in 76% of those months and in up markets, its NAV outperformed in 51% of months.

Desmond Kinch, CFA
Chairman

Investment Manager's report

OAM European Value Fund performed well to the end of September, increasing 14% in the first three quarters of the year and recording an all-time high NAV per share. However, sentiment towards the UK and Europe swiftly changed, with the most notable factors being the re-election of Trump and Labour's budget announcement in the UK, eroding much of the gains and resulting in an annual return of 3.9%.

The main contributors to the Fund's performance in 2024 were Standard Chartered, the car carrier companies, Beerenberg, Baker Steel Resources Trust and NN Group. The main detractors were Close Brothers and Yara.

The Fund's long-term investment strategy means that turnover of its holdings is generally low. Turnover in 2024 was due in large part to takeover bids for three of the Fund's holdings, in aggregate worth $18.4mn for the Fund. The premiums of these takeovers underscore the low valuations ascribed by the market. DP Eurasia was acquired by Jubilant Foodworks in the first quarter of the year (and discussed in last year's report) at a 60% premium to the closing share price before the announcement. Gram Car Carriers was acquired by Shipping Agencies Services (SAS), a subsidiary of MSC, in July at a 29% premium. Beerenberg was acquired by Altrad in November at a 22% premium to the closing share price, but a 54% premium to the price at which Altrad bought an initial 25% stake in July.

We bought shares of Beerenberg, a Norwegian small cap stock, in October 2023 at the IPO and subsequently added to the position at lower prices. Beerenberg's high free cash flow generation and low valuation made a highly attractive combination. The Fund owned 7.2% of Beerenberg, although on account of its small capitalization it was a relatively small position for the Fund. Altrad recognized the attractive characteristics of Beerenberg, including synergies with its own business, and launched a bid for the company at 2.3x the IPO price. Although we thought Altrad's offer did not fully capture the company's strong prospects, it was a handsome return for the Fund over less than 14 months. The investment generated an IRR of 125% for the Fund. We have recently invested in another Norwegian company with similar attributes.

The bulk of the rest of the sales have been in the car carrier names. We have gradually reduced the Fund's exposure to car carriers in line with the development of the sector: in October 2022 the exposure peaked at 19.6% of the Fund, at the beginning of 2024 the Fund's exposure to car carriers was 15%, it now stands at 10%. In aggregate, the Fund sold $11.9m worth of shares and collected $2.3m in dividends during the year across its holdings in Wilh. Wilhelmsen Holding, Wallenius Wilhelmsen, Höegh Autoliners and Gram Car Carriers.

Following SAS's bid for Gram Car Carriers we sold the Fund's shares in the market. It was a fantastic investment for the Fund, generating an IRR of 97%. The Fund has almost fully exited Höegh Autoliners, generating an IRR of 100%, with a small position remaining. Emanuele Grimaldi, whose family owns the private shipping conglomerate, Grimaldi Group, has been buying shares in Höegh Autoliners and built up a stake of over 10%, fueling rumours of a potential takeover bid. He added to his shareholding in September commenting on the low valuation of the company despite its high cash generation, long-term contracts with manufacturers and long-term business. Grimaldi Group operates its own fleet of car carriers, so he understands this business well.

The Fund's car carrier exposure now lies predominantly in Wilh. Wilhelmsen Holding, with less than a quarter of the exposure directly in Wallenius Wilhelmsen shares. From our initial investment in Wallenius Wilhelmsen of $2.4m, we sold over 70% of the position for $12.6m, collected $1.6m in dividends, and the market value of the remaining shares is over $5m. The IRR generated so far on this investment is 115%.

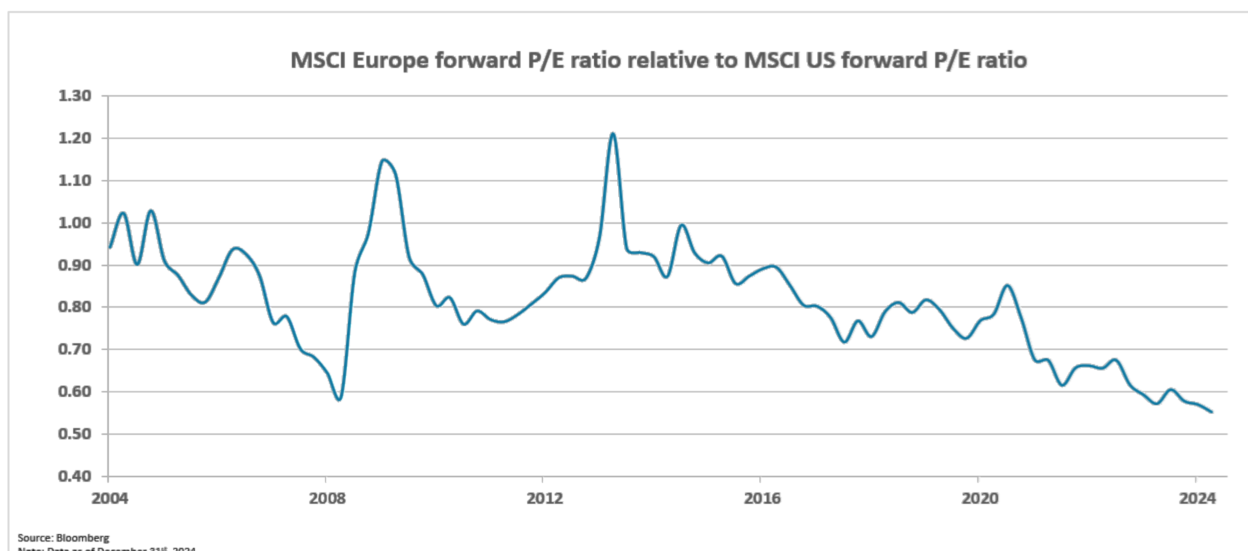
The car carrier sector has enjoyed a prolonged period of high freight rates following underinvestment in newbuilds and restricted capacity in shipyards to build new vessels. For over a year, a newbuild's resale value was nearly 20% higher than its purchase price, whilst a 5-year old vessel could command a higher price than the cost of a newbuild from the shipyard.

Dynamics have started to shift in the market as newbuilds have been delivered. During the year, 42 new vessels were added to the global deep sea car carrier fleet increasing capacity by 10%. The market was able to absorb this increase due to undercapacity. A further 69 vessels are due to be delivered in 2025, followed by 55 vessels in 2026, adding to a current fleet of 636 vessels. On the demand side, the sudden increase in Chinese electric vehicle (EV) manufacturing and export of these vehicles has led to higher than anticipated volumes. A significant portion of Chinese EV exports have been unable to secure capacity on car carriers and have been shipped by container, which is far from ideal. Trade routes have been altered with the traditional Europe to Asia route becoming the backhaul to the Asia to Europe route which now represents the predominant flow of goods. Many of the vessels on order for delivery in 2025 and 2026 are to Chinese car manufacturers with no experience operating trade routes. These are complex routes that require maximization in both directions to be run profitably. Rerouting of trade routes to avoid the Red Sea has resulted in longer voyages, effectively reducing capacity. Further, the global fleet is getting old: the average vessel was built in 2011, there was no net growth in fleet capacity between 2013 and 2023, no ships have been recycled since 2021, and many older ships are now due to be recycled. Wallenius Wilhelmsen has been cautious in the development of its fleet, reluctant to order new ships at the top of the cycle, particularly as inexperienced operators are ordering high-priced vessels.

Wallenius Wilhelmsen has been renewing contracts with longer terms, demonstrating its strong relationships with customers. In addition to shipping, it offers a comprehensive global land-based logistics network making it an integral part of its customers' supply chains. Wallenius Wilhelmsen has been balancing paying a healthy dividend to shareholders with building its balance sheet. Although there will be some volatility in market rates as the global fleet absorbs new capacity, Wallenius Wilhelmsen has taken a conservative, prudent approach to lessen the impact of the cycle on operations, yet it trades at just 3x 2025 estimated earnings and a 19% dividend yield.

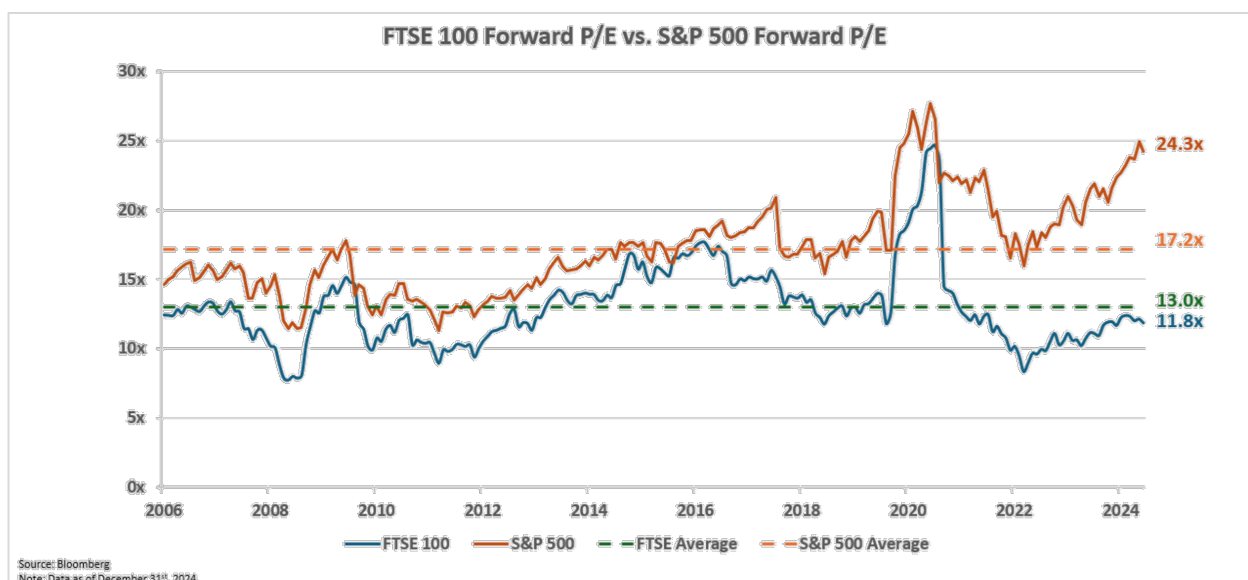
Whilst we are confident Wallenius Wilhelmsen has positioned itself well, the 50% discount to NAV at which Wilh. Wilhelmsen Holding trades provides an extra margin of safety. We believe that its long-term track record of creating value for shareholders through investing in a combination of cyclical shipping sectors balanced with adjacent, more stable, maritime businesses is underappreciated by the market. We think that further share buybacks are likely in 2025. At such a wide discount share buybacks are highly accretive to NAV per share.

We have identified several attractive investments in which to deploy the proceeds from DP Eurasia, Beerenberg and selling down the car carrier investments. Relative to US equities, European equities appear cheap, and the valuation gap has widened to an extreme as the chart below shows. We have been building positions in two Scandinavian companies trading at less than book value despite strong long-term track records.



As Desmond mentioned in his report, UK equities are cheap both historically and relative to US equities. We have taken advantage of this valuation gap, adding to the Fund's investments in UK investment trusts that invest in UK small cap companies, UK investment trusts with diversified, high quality, global portfolios that trade at historically wide discounts to NAV, as well as in selective UK stocks.

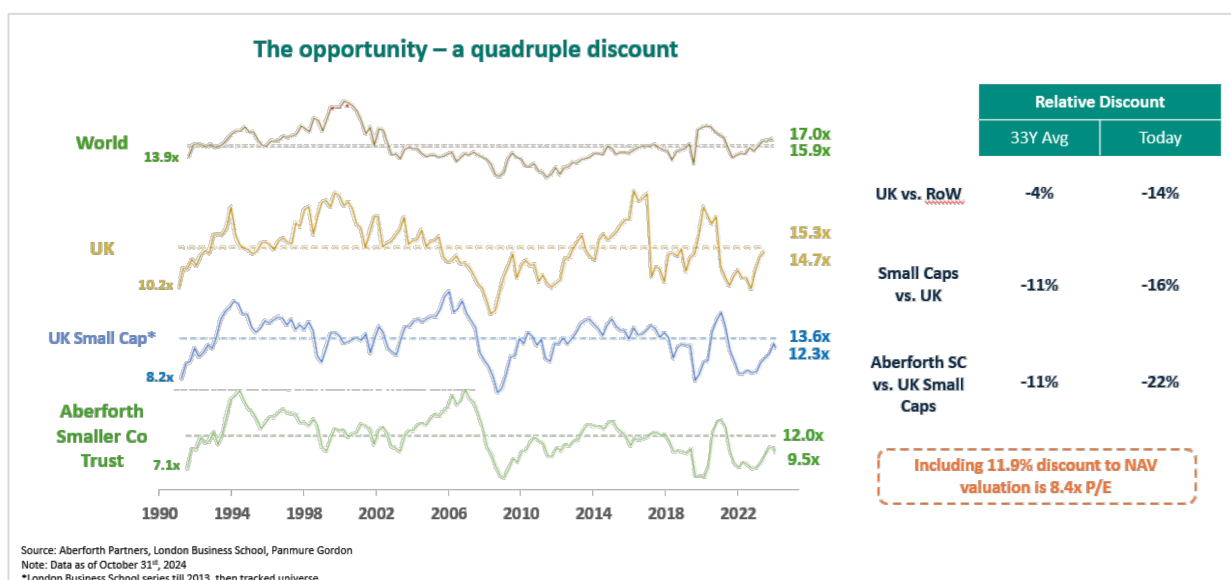
Whilst the S&P 500 index trades at elevated levels, the FTSE 100 index trades below its long-term average. Relative to US equities, UK equities are valued at the cheapest level in at least 20 years, and probably much longer. Many cite the unattractive industrial exposure of UK companies relative to the S&P 500's high-growth tech exposure as a reason for this.



Although we acknowledge the lack of enthusiasm for the general industrial exposure of the FTSE 100, there are UK companies with compelling investment cases at bargain valuations. These include companies with excellent long-term track records of growth, sustained return on equity of over 20% during the past 30 years, diversified global exposure, that are trading at single digit price-to-earnings (P/E) ratios. We are continuing to build an investment in a company that is a screaming buy opportunity by these metrics.

A specific theme is UK small capitalization stocks (small caps). UK small caps are cheap relative to UK large caps, despite their outperformance of over 1.1% per annum during the past 39 years.

Illiquidity and volatility can be obstacles to investing in small cap stocks but investing through an investment trust can mitigate these constraints. We invested in Aberforth Smaller Companies in November 2023, when its underlying holdings were trading at a P/E of just 6.9x, or 6.2x after considering the discount to NAV of Aberforth's share price. During 2024, we added to this position, as well as to two more investment trusts that manage concentrated portfolios of UK small cap investments. The chart below shows the multiple layers of discount on offer: UK equities trade at a wider than average discount relative to global equities, in turn UK small caps trade at a discount to UK equities. Aberforth's portfolio, which employs a value strategy, trades at discount to UK small caps average valuation. These depressed valuations have been highlighted by the large number of takeover offers, predominantly from US companies. In 2024, one in 20 of all UK-listed companies were subject to a takeover offer.



We have been increasing the Fund's exposure to selected investment trusts trading at attractive discounts to NAV, using these discounts as an appealing way to gain exposure to higher quality portfolios. We recognized that the Fund's previous strategy of investing in deeply discounted investment trusts with more speculative underlying holdings was detracting from the Fund's performance. The most significant additions during 2024 were RIT Capital Partners and HarbourVest Global PE.

RIT Capital Partners invests in quoted equities, private investments and uncorrelated strategies for diversification. It has a strong track record, generating shareholder returns of 10.4% since inception in 1988, and has grown NAV at an average annual rate above 10% over the same period. During the period between 2004 and 2020, RIT Capital Partners often traded at a premium to NAV. In 2023 - as well as investment trusts generally being out of favour - investors were concerned about the impact of higher interest rates on private equity investments, the discount of RIT Capital Partners widened significantly. The valuation of its private investments have not required a significant writedown, reflecting less impact from higher interest rates than feared and a conservative valuation policy. The discount at which RIT Capital Partners trades seems short-term focused for a long-term vehicle with a strong track record.

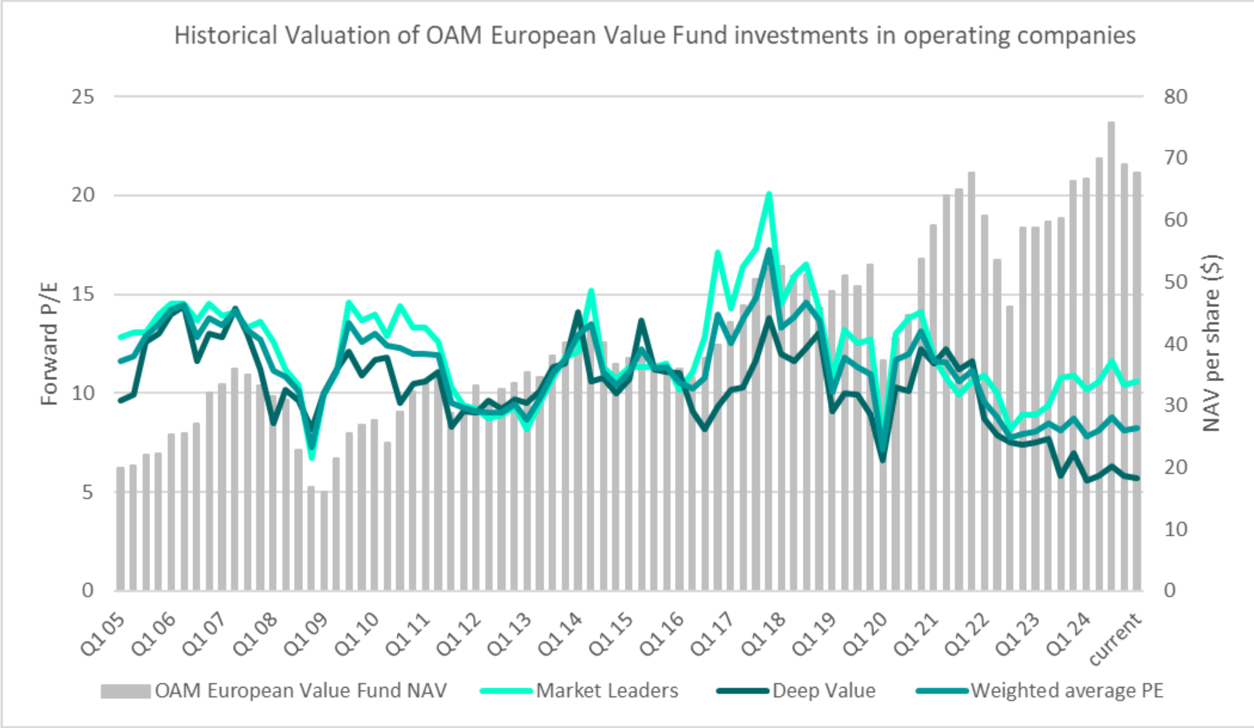
HarbourVest Global PE (HVPE) invests in private equity funds managed by HarbourVest Partners, giving investors exposure to a diversified global portfolio of high-quality private companies. We bought shares when HVPE was trading at more than a 40% discount to NAV. With a track record of generating a compound annual return of 12.2% to shareholders over the past 15 years, this discount seems nonsensical.

The Fund also owns shares of Pantheon International, which has similar private equity exposure. Since conducting a major share buyback, Pantheon's discount narrowed from a peak of 50% in 3Q 2023, to 36%: an improvement but still well above its long-term average discount to NAV. There are several near-term catalysts that could restore investors' confidence in listed private equity vehicles such as HVPE and Pantheon International. These portfolios are focused on resilient sectors with high recurring revenues and high profitability. Following subdued activity over the past 2 years, an increase in realisations at uplifts to carrying values would drive NAV growth and fund share buybacks at wide discounts to NAV.

The stubborn discounts to NAV in the sector have spurred a more active approach by some investors. Metage wrote to shareholders of HVPE criticizing its capital allocation policy and urging the Board to bring forward formal proposals to better align the investment portfolio of HVPE with the structure of another HarbourVest vehicle or liquidate HVPE to eliminate the discount once and for all. Saba Capital requisitioned general meetings and called for fellow shareholders of seven UK investment trusts to sack their boards on the grounds that the current investment manager and board's *"inability to mind the gap between each Trust's trading price and NAV has destroyed significant value for shareholders"*. There may be some flaws in Saba Capital's approach, but it brings much-needed attention to a sector that has been languishing on wide discounts.

Baker Steel Resources Trust (BSRT) has been a long-term investment for the Fund, and is its 7th largest position. It was a key contributor to the Fund's performance in 2024 as the NAV increased 17% in USD and the discount narrowed from 41% to 29%. It is reaching an inflection point as its portfolio of junior mining and natural resources companies move up the development curve and become cash flow positive. BSRT also negotiates royalties which offers potential for additional regular income as projects develop. This shift to positive cash flow should enable BSRT to return capital to shareholders, through large regular dividends and share buybacks at a discount to NAV or tender offers.

Collectively, the Fund's underlying holdings appear very attractive. The Fund's investments in companies we deem to be Market Leaders trade at just 10.4x this year's estimated earnings, below its long-term average of 12.1x. Investments in the Deep Value category stand out as extremely cheap, trading at 5.8x this year's estimated earnings and an 8% dividend yield, in contrast to 20-year averages of 10.3x and 4.3%. The chart below, showing the development of the Fund's NAV per share on the right axis in comparison to the underlying valuation of the Fund's investments in operating companies lays this bare.



Meanwhile, family-controlled holding companies, including investments such as Wilh. Wilhelmsen, trade at historically wide discounts averaging 48%, and the Fund's exposure to investment trusts trade at an average discount of 28%.

The Fund's holdings offer exceptionally good value. We are spoilt for choice with new investment ideas, using the disconnect in valuations and market volatility to the Fund's advantage. We have been making new investments with highly attractive characteristics: from an asset light, high cash flow yielding company in a growing market; a market leader trading at half book value with net cash on the balance sheet; to a leading global company with an impressive track record and strong prospects trading at single-digit price to earnings ratio. The Fund is poised to benefit from a recovery in UK and European equity markets, and we are confident that it can generate handsome returns over the medium and long-term for shareholders.

Camilla Anderson, CFA
Investment Manager