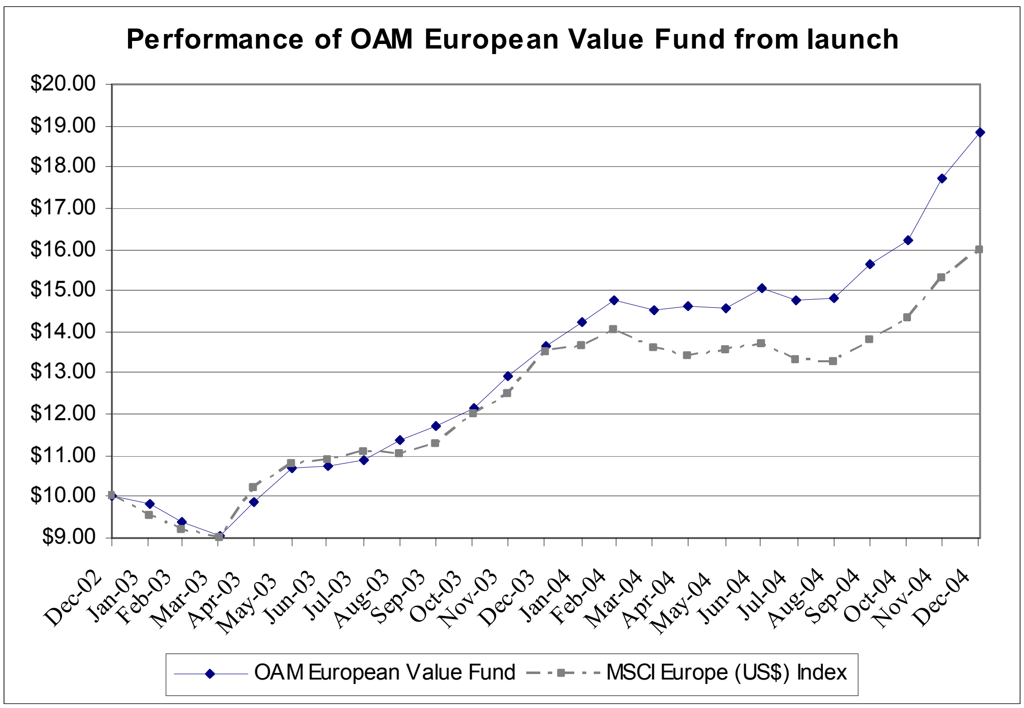
7th January, 2005 **OAM European Value Fund**

Dear fellow shareholder,

Last year, OAM European Value Fund's NAV increased by 38.1%. By comparison, the Fund's principal benchmark, the MSCI Europe (US$) index, increased by 18.1%. This is the Fund's second year of outperformance since its inception on 31st December, 2002. Since inception, the Fund's NAV has increased by 88.4% versus 59.6% for the MSCI Europe (US$) index. As subsequent history has shown, the Fund was launched at a time when European equity valuations were cheap.



The Fund invests in four types of European companies: market leaders and consolidators; investment trusts and closed-end funds; investment holding companies; and deep value shares.

The market leaders and consolidators held by the Fund include:

Amer Group - a Finnish company that owns Wilson Sporting Goods, Atomic skis, Precor gym equipment, and Suunto dive computers and watches that perform various sporting or fitness functions. Amer Group is very well managed and has aspirations to become the world's leading sporting goods company.

CSM – a Dutch company that is the #1 and # 2 baking ingredients supplier in Europe and the U.S. respectively, the world's leading manufacturer of lactic acids and its derivatives, and a sugar beet refiner. CSM's shares have recently been accumulated by two aggressive hedge funds that are pushing for the realization of shareholder value. CSM's confectionary division was just sold for Euro 850 million, a very good price, and there are prospects for further realization of shareholder value.

Diageo – a British company that is the world's leading branded spirits company with brands that include Johnnie Walker, Bells, J&B, Smirnoff, Tanqueray, Gordon's, Cuervo, Baileys, Captain Morgan and Guinness. Most of Diageo's earnings are generated as free cash flow which has historically been used to pay a generous dividend, subject to only 10% withholding tax, and to repurchase shares. Diageo has repurchased more than 25% of its shares during the past seven years.

Permasteelisa – an Italian company that is the world's leading designer and manufacturer of curtain walls for large commercial buildings and landmark buildings such as the Sydney Opera House. Competition has increased in the curtain wall market in recent years but the accident at Charles de Gaulle airport in Paris earlier this year is likely to lead to less focus on price and more on quality and reputation by architects and contractors when selecting curtain wall manufacturers. The company is debt free and the shares appear undervalued for a world market leader.

Telecom Italia – an Italian company that has by far the largest share of Italy's fixed line and mobile telephone market. They also have millions of customers in countries mainly in Latin America and the Mediterranean. This year, Telecom Italia Mobile is being merged into Telecom Italia which will be beneficial to earnings per share and in due course will enable Telecom Italia to pay a higher dividend. We own the savings shares which by law pay a higher dividend than the ordinary shares and are subject to only 12.5% withholding tax. The savings shares currently trade at a 22% discount to the ordinary shares. Since they are the most expensive part of TI's capital structure, we think that they are likely to be eliminated in time at a much narrower discount than currently prevails.

Van de Velde – a Belgium company that is Europe's second largest designer and manufacturer of luxury lingerie. Luxury lingerie is a very profitable business and Van de Velde has continually gained market share, increasing its sales by more than 10% per annum and its earnings per share by more than 15% per annum over the past 10 years. The company is cash rich and generates prodigious free cash flow. They manufacture primarily in China and Tunisia and own more than 30% of Top Form, China's leading lingerie manufacturer whose shares are listed in Hong Kong. Visiting the company and talking to sales attendants at various up-market lingerie stores that carry their products was one of my more enjoyable research projects last year.

Vopak – a Dutch company that is the world's largest owner of tank farms for storing oil and chemicals at major ports around the world such as Rotterdam, Houston, Singapore and Shanghai. This is a steady, predictable business that generates strong free cash flow. Vopak is using its free cash flow to reduce some high cost debt, increase its dividend and to expand its activities, particularly in Asia, Australia and Eastern Europe. The shares are undervalued relative to valuations recently paid to buy two of its smaller competitors.

Yara International – a Norwegian company that is the world's leading manufacturer of nitrogen-based fertilizers. It was spun off from Norsk Hydro earlier this year at a very attractive valuation. Yara is a low cost manufacturer with its fertilizer plants based in Norway, Qatar and Trinidad where it sources natural gas, the key ingredient in nitrogen-based fertilizers, at attractive prices. Fertilizer demand is growing faster than world GDP as the growing demand for food and a fixed supply of arable land cause farmers to use more fertilizer to increase crop yields. As long as U.S. natural gas prices remain high, this tends to restrict supply and keep prices and profit margins high.

The investment trusts and closed-end funds fall into two principal categories: private equity or venture capital closed-end funds; and investment trusts that buy endowment policies in the secondary market. In the first category are Absolute Private Equity, Baltic Republics Fund, Ocean Resources Capital, Prelude Trust, Pantheon International Participations and Jubilee Investment Trust. Baltic Republics Fund is being managed with a view to being liquidated at net asset value (NAV) in the next two years, while Jubilee Investment Trust has a continuation vote in April 2008 when it is likely to be liquidated due to its aggressive shareholder base. The other funds are intended to be evergreen funds (without a termination date). Prelude Trust and Pantheon are well managed and I believe should have narrowing discounts in time. Ocean Resources invests in natural resources exploration and production companies, with over half the fund being invested in gold miners. We are positive on the outlook for gold and have high regard for David Hitchens, the manager. Absolute Private Equity has an expensive cost structure with CSFB charging fees on top of fees. However, the management contract of the fund changed hands recently and from my conversations with the Chairman, I think that the fund is likely to make distributions (at NAV), probably starting this year. If they do not take proactive action, I believe that the wide discount will attract value investors such as us who will agitate for the realisation of its NAV.

The second category of investment trusts buys endowment policies in the secondary market that mortgage holders are looking to surrender. These funds managed by Barclays Global Investors (the BGI funds), RCM Dresdner, and Scottish Value Management (Life Opportunities Investment Trust) should produce returns in Sterling averaging about 10% per annum over the next few years to maturity with relatively low risk. All these funds have maturity dates and we have them modeled in Excel spreadsheets whereby we calculate the gross redemption yield which is the expected annualised return to maturity. They are an obscure corner of the market that attract little attention from institutional investors. In recent years, they have been sold by retail investors concerned by problems in the U.K. life assurance industry, hence their attractive discounts to NAV.

The investment holding companies are mostly controlled by Europe’s wealthiest families and they have good track records of compounding NAV, yet they trade at wide discounts to NAV. We have modeled all the European holding companies on Excel spreadsheets with live links to Bloomberg so that on a daily basis we can monitor the discounts to NAV. We believe that our knowledge and tracking of European holding companies is deeper than nearly any other investment manager in the world. We buy them when their discounts to NAV are particularly wide, usually in excess of 35% and sell them, as we did with Marzotto, IFIL and Groupe Bruxelles Lambert, when their discounts narrow to historically low levels. To give shareholders a flavour of the assets that these holding companies control, a brief summary of each is provided below:

Almancora – a Belgium holding company that controls Almanij which in turn controls KBC, one of Belgium's leading banks that has expanded successfully into Eastern Europe. KBC sells at 10.7 times this year's estimated earnings and yields 3%. KBC recently announced that it will merge with Almanij which would eliminate one level of discount, hence the strong performance of Almancora. There is no capital gains tax in Belgium when holding companies sell assets which would make this a tax-free transaction.

Companie Nationale de Portfeuille (CNP) – a Belgium holding company controlled by Albert Frere, Belgium's wealthiest man. CNP's principal investments are stakes in Total, one of the largest oil companies in the world, and GBL which in turn has stakes in Total, Suez, Imerys and Bertelsmann. Bertelsmann is still a privately-held company even though it is one of the world's leading media companies. If it goes public in the next few years as has been rumoured, this could be a catalyst to CNP's discount narrowing. In the meantime, Albert Frere is doing a good job of increasing CNP's NAV.

Bollore Investissement – a French holding company controlled by Vincent Bollore, one of France's wealthiest men. Bollore's principal investments are in shipping, transportation, plantations, fuel distribution, packaging film and films for capacitors, thin paper production and ticketing terminals. Vincent Bollore has a fabulous track record of creating wealth for shareholders by investing principally in highly profitable, cash generative businesses, many of them in Africa, at very low prices. Turnover has grown from Euro 50 mn to Euro 5 bn during the past 15 years without the company having to access equity markets. In the past 8 years, Bollore has been very successful in buying stakes in large French companies at attractive prices and getting management or the controlling shareholder to unlock value. He did this with Rue Imperiale and Bouygues making a profit in each case of Euro 290mn and Euro 230 mn, and now he is doing the same with Havas, one of the world's leading advertising agencies.

Financiere de L'Odet – the French holding company at the top of Vincent Bollore's pyramid of holding companies. Odet owns 65% of Bollore Investissement and 5% of Mediobanca, Italy's leading investment bank. Vincent Bollore continues to buy shares in Odet and we believe that this holding company may be eliminated in time given that the free float is now only 15%, of which more than half the free float is held by two long-term investors.

Financiere Fonciere – a French holding company controlled by the Peugeot family. Its principal assets is a 21% stake in Peugeot. It is one of the best performing European car manufacturers, driven by its successful development of diesel engines, and they are buying back shares which increases Fonciere's percentage ownership. Peugeot trades at a P/E of 8. Fonciere also owns stakes in other French companies but its Peugeot stake accounts for 90% of its net assets. The company is debt free.

IFI – an Italian holding company controlled by the Agnelli family. Its principal asset is a 62% holding in IFIL, another Agnelli holding company, which accounts for 90% of its net assets. The remaining 10% of net assets are accounted for by its 29% ownership of Exor which is essentially in liquidation and is now largely a cash shell. IFIL's principal assets are a stake in Fiat (30% of NAV), a stake in Worms (25% of NAV - a French

holding company that owns Permal, Argo Wiggins and a large stake in SGS), La Rinescente, a leading Italian supermarket and department store chain that is being sold for around Euro 1.4 billion (30% of NAV), and a stake in San Paulo IMI (15% of NAV – a leading Italian bank). There is a reasonable probability that the Agnelli family might use the cash from selling La Rinescente and liquidating Exor to privatise IFI. They would need to offer shareholders a much narrower discount than currently prevails to achieve such a privatisation.
<u>Italmobiliare</u> – an Italian holding company controlled by the Pesanti family. Its principal asset, accounting for half of its NAV, is a controlling stake in Italcementi, one of the world's leading cement manufacturers which in turn has a controlling stake in Cements Francais. Through Italcementi and Cements Francais, it is one of the world's leading cement producers with extensive operations in Italy, France, Spain, Thailand, India, Egypt and the US. The other 50% of NAV is accounted for mainly by a portfolio of listed investments of which stakes in Unicredito, Mediobanca and RCS Mediagroup are the most important. We own the savings shares which sell at 26% discount to the ordinary shares.

The deep value shares have been on the whole disappointing performers, though the attached spreadsheet of holdings understates the true performance as Vendex was sold during the year at a 50% profit, having only held the shares for only about 6 months before the company was acquired by KKR, a large private equity firm. Towards the end of the year, we also reduced our holding in CMT Medical which is a cash rich, statistically cheap company that supplies critical components for digital X-ray machines, principally to Toshiba. Given their reliance on Toshiba as a customer, CMT has no pricing power and even though sales in volume terms are increasing at around 10% per annum, its sales in Dollars are shrinking. In Euro terms, the position is even worse. We see no resolution to this problem of CMT's reliance of Toshiba in the immediate future.

Heijmans is a Dutch builder of residential homes, commercial and government buildings, roads, bridges and tunnels. The shares are undervalued because of uncertainty about a pending government fine. The fine should be resolved later this year, and the shares should do well once the uncertainty is out of the way. Heijmans has a large land bank on which it will build residential homes. This is a huge source of hidden value that is not reflected in the balance sheet, but which will be released into earnings over time.

Linton Park owns huge tracts of arable land in Kenya, Malawi, South Africa, Australia, California and Chile on which it grows primarily tea, but also grapes, avocado, macadamia nuts, almonds, citrus and pineapple. The price of tea is currently quite low and the other crops have not yet reached their potential yield so earnings are currently depressed. Linton Park also owns 32% of Seigfried, a Swiss-listed contract manufacturer of pharmaceuticals that accounts for over 75% of Linton Park's market capitalization. In addition, it owns a beautiful stately home in Kent in rambling grounds that is carried on its balance sheet at a fraction of its current value. The shares sell at a large discount to their true value and the controlling shareholder continues to buy shares, shrinking the free float to less that 20% currently.

The one real disastrous investment in OAM European Value Fund to date has been Waterford Wedgwood. Though the company owns excellent brands that have prospered over centuries, it has been a poor investment for us. We were encouraged a year ago to buy shares after the share price had declined 80% and the managing director bought Euro 250,000 in shares in the market. Based on prior peak earnings, we bought the shares on 2 times peak earnings. Waterford Wedgwood's main problem is that their cost base is in Euros while most of their sales are in Dollars. While other companies in the portfolio like Diageo, Amer and CSM suffer from translational currency risk whereby their U.S. Dollar earnings are translated into Euros or Sterling, Waterford Wedgwood suffers from transactional currency risk. In crude terms, if a European company with 10% pretax margins earns all its money in the U.S. but all its costs are also denominated in U.S. Dollars, its net profit will decline by 10% if the Dollar weakens by 10% against its reporting currency. Under the same scenario, a company that sells all its products in the U.S. but has all its costs denominated in Euros will see its net profit completely eroded. This is Waterford Wedgwood's problem and it is compounded by what I believe is a bloated cost structure. For instance, I recently complained to the finance director that the company has a board of 18 directors that cost shareholders Euro 1 million per annum for the past two years. Waterford Wedgwood has cut costs, but clearly not enough.

If the Dollar recovers, Waterford Wedgwood's earnings should recover sharply and with it the share price. The company is currently having a rights issue which is largely underwritten by the company's major shareholders. Since the underwriting is akin to a large purchase by insiders, and Waterford Wedgwood shares currently trade at an option-like valuation, we will be taking up our rights and therefore be investing more money in this company. Hopefully, it will not prove to be a case of throwing good money after bad. We are also in the final stages of researching a German company whose share price looks like it has about 50% upside to fair value. If we make the investment, it will represent the Fund's first purchase in Germany since inception and will result in the Fund being nearly fully invested.

I think shareholders will agree that there is still good value in the Fund's holdings. My principal concern is the level of the Euro and Sterling which on a purchasing power parity basis are about 20-25% overvalued against the Dollar. Whilst I see no immediate prospect of a recovery in the Dollar, I am concerned that (a) sentiment against the Dollar is universally bearish and the consensus is usually wrong (this was drafted before the recent rally in the Dollar), and (b) if the U.S. manages to get its current account deficit under control, the Dollar could recover sharply against Sterling and the Euro.

Desmond Kinch
Chairman