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OAM European Value Fund

Dear Fellow Shareholder,

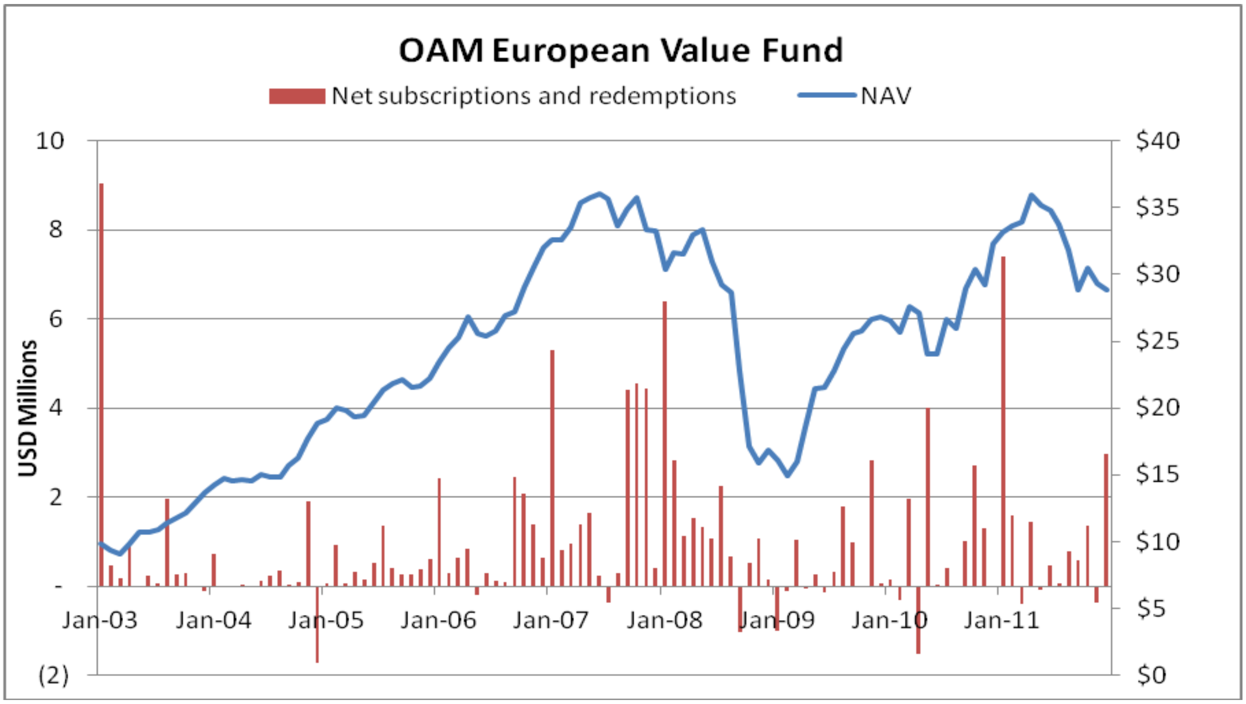
Performance

Last year, sentiment turned extremely negative towards equities globally, not just in Europe. The Fund's benchmark, the MSCI Europe (US$) index, fell 14.5% during the year. European currencies moved very little year on year against the US Dollar, with the Euro falling 3%, Scandinavian currencies falling about 2.5% , and Sterling and the Swiss Franc falling about 0.5%. The Fund held up slightly better than its benchmark. The Fund's NAV per share fell by 10.7%.

Since the Fund's inception nine years ago, the MSCI Europe (US$) index has returned 4.3% per annum. The Fund has generated a much higher return since inception of 12.5% per annum. Shareholders in the Fund since launch have nearly tripled the value of their investment. Although economic growth in Europe has been slow during the past nine years, and is likely to be at least as slow in the coming 5-10 years, we continue to believe that there are ample opportunities to generate very attractive returns by investing selectively in European equities.

Subscriptions and redemptions

The Fund again received net subscriptions this past year. The chart on the next page shows the Fund's net subscriptions and redemptions since inception.



Although we try to guide clients to add money when sentiment is negative and prices are depressed, it is clear from looking at this chart that the Fund has experienced some of its largest net inflows near peaks and largest net outflows near troughs. We have tried to provide as much information as possible to help clients make sensible investment decisions, but it appears that we cannot compete with the power of negative (and positive) media coverage.

During the year, my wife added to her investment in the Fund. My wife and OAM have never redeemed a single share of the Fund and in aggregate remain the Fund's largest shareholder. Alignment of interest between a fund's manager and its shareholders is extremely important. In spite of the pervasive negative political and economic news in Europe, we remain confident about the Fund's future prospects. The Fund owns shares in a collection of world-class global businesses that we think are trading at very attractive valuations for no other sound reason than because these companies are listed in Europe. We have written enough about Europe's sovereign debt and banking crises and were early in ringing the alarm bell about these risks. Rather than repeat much of what we have said during the past two years in client newsletters and these annual Chairman's statements, I will instead devote this report to helping you understand what we own and why.

Intrinsic value grew, but the Fund's NAV declined

One of the most important things that we do at OAM is to estimate the intrinsic value of the businesses or holding companies in which we invest. This is part art, part science. The other important thing we do is to try to identify good businesses, closed-end funds or investment holding companies that, over time, are likely to compound their earnings per share (EPS) or net asset value (NAV) per share at attractive growth rates. This requires us to look at the track record of the business or fund and understand its economics. We create a margin of safety by purchasing assets at a significant discount to what we think they are worth. We also try to earn an attractive return by investing in companies or funds that we think can grow intrinsic value over time. We search for companies or closed-end funds with one or more of the following characteristics:

1. The ability to increase intrinsic value by at least 10% per annum.
2. An exceptionally large discount to NAV or intrinsic value.
3. An identifiable catalyst that is likely to narrow the discount to NAV or intrinsic value.

There are only three determinants of return in the stock market: EPS or NAV growth, dividends, and change in the P/E or NAV discount/premium. Over the long-term, the first two factors account for the vast majority of returns. In the short-term, the last factor can have a big bearing on returns. Changes in the P/E of a company or the discount or premium to NAV at which a closed-end fund or investment holding company trades are driven by sentiment. Currently, stock market sentiment in Europe is very negative and has deteriorated during the year so it is little surprise that P/E's have declined and discounts to NAV have widened in the past year.

In an effort to determine the contribution of these three determinants of return, I did the following exercise. I compared the average P/E of the operating companies and the discount to NAV of the closed-end funds and investment holding companies owned by the Fund at the beginning and the end of the year. This is a summary:

	At 1st January 2011			At 31st December 2011		
	P/E	Dividend yield	% Fund assets	P/E	Dividend yield	% Fund assets
Market leaders	13.3	2.4%	23%	9.3	3.1%	21%
Deep value shares	10.5	3.5%	20%	9.1	2.7%	17%

	At 1st January 2011			At 31st December 2011		
	Discount to NAV	Dividend yield	% Fund assets	Discount to NAV	Dividend yield	% Fund assets
Closed-end funds	30%		23%	44%		25%
Investment holding co's	39%	3.0%	27%	50%	4.2%	25%

If we break down last year's return into the three components based on our rough analysis, we get the following result:

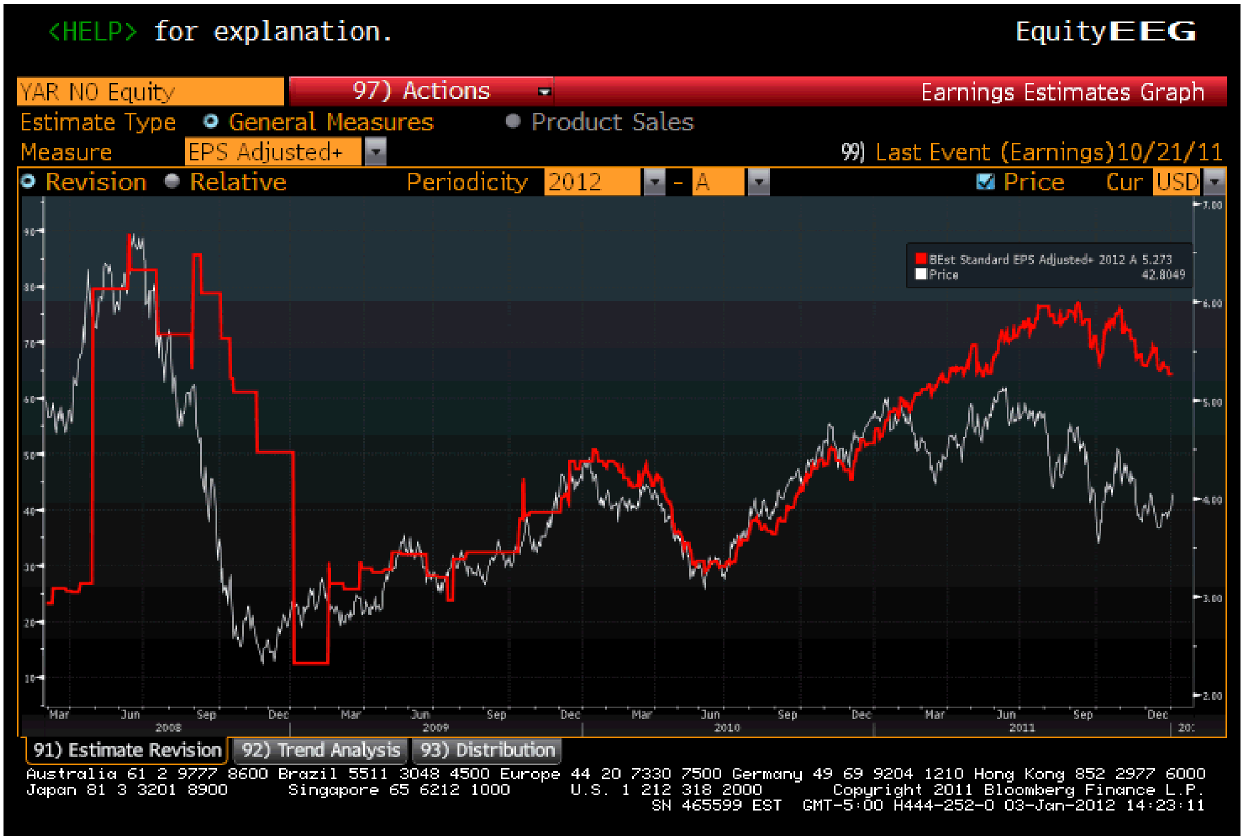
Growth in EPS of operating companies or NAV/share of holding companies and closed-end funds:	+9%
Dividend yield net of withholding tax:	+2%
Return due to change in P/E or discount to NAV:	-22%
Total return:	-11%

When looked at in these terms, we achieved our long-term objective of increasing the underlying value of the Fund's holdings by more than 10% during the year, inclusive of net dividends. The negative NAV return was entirely due to a more than 20% de-rating in the valuation of our portfolio of companies. It is impossible to predict what will happen to P/E's and discounts to NAV from year to year. That is a function of market sentiment. What we do know is that over the long-term, buying good companies at low P/E ratios or buying well-managed closed-end funds and investment holding companies at wide discounts to NAV ultimately leads to attractive risk-adjusted investment returns. I often say that what we do is a bit like insurance underwriting. We do not know from year to year whether a hurricane will hit or whether claims will be historically high or low. However, we do know that by applying our consistent investment approach, over time, we are likely to compound our clients' savings at an attractive rate and not be wiped out in the bad years.

Our largest holding – a good example of this phenomenon

Yara International is the Fund's largest investment, worth $8 million at year end. It has been the Fund's largest investment for a while and we have owned shares in the company since it was spun off from Norsk Hydro in March 2004. Since its IPO, Yara has provided its shareholders with a compound annual return inclusive of dividends of 26% per annum measured in US Dollars. This is a result of the company increasing its EPS fivefold during the past 8 years. We have generated an even higher return as we have traded around our position, taking advantage of the company's share price volatility. Yara is the world's largest producer of nitrogen fertilizer. It is a very well-run company, it is probably the lowest cost producer in the world of nitrogen fertilizers, and it is almost debt-free.

During the course of 2011, the company's estimated EPS for the year increased by 15%. However, last year, the company's share price fell by 30% in USD terms. That is not rational. It is a pure reflection of sentiment. Yara is a global company. Farm economics are very strong. Inventories as a proportion of annual demand are very low on a historic basis for most agricultural commodities. During the past year or so, China has amended its energy policy so that the price of anthracite coal, the main ingredient in Chinese-produced urea, has been increased. Since China is generally the swing producer and has been a major exporter of urea, the change in policy is likely to lift the floor for urea prices. There is limited new nitrogen fertilizer capacity under construction. Capacity growth matches likely demand growth and this is likely to be quite stable regardless of Europe's growth prospects. Yet, as is evident from the chart below showing Yara's share price in USD versus its 2012 estimated EPS in USD, a huge gap has opened between Yara's estimated earnings and its share price.



Source: Bloomberg

Furthermore, we think that the 2012 EPS estimate of NOK 31 for Yara is likely to be increased this year. At its Capital Markets Day for investors a few weeks ago in Oslo, Yara significantly increased its estimated EPS under various scenarios. In essence, they told investors that in a bearish scenario where fertilizer prices are supply-driven, they should earn NOK 28 per share, and in a bullish scenario where fertilizer prices are demand-driven, they should earn NOK 55 per share. Since we are much closer to a demand-driven fertilizer market, an EPS estimate of NOK 32 this year is very likely to prove too low, and perhaps significantly so. Even on the current EPS estimate, Yara's shares are selling at less than 8 times this year's estimated EPS. That is way too cheap for a company of this calibre.

Saying goodbye to two great companies

At the end of September 2011, Vopak had become our second largest holding and Hamworthy, our seventh largest holding. During the fourth quarter, we sold our Vopak shares for $6.5 million. We paid $1 million for these shares in June 2003. We also received dividends from the company during the past 7 years. Vopak is the world's largest owner of tank farms for storing oil, chemicals, biofuels and LNG in strategically important ports around the world such as Singapore, Rotterdam and the Houston amongst others. They have roughly a 10% share of the global market for tank storage. This is a business that has been around for more than a century. They have long-term storage contracts, mainly with multinational oil and chemical companies which gives them excellent visibility of earnings. There are high barriers to entry in their business because of the limited prime real estate globally for locating tank farms. The company generates a high return on capital and prodigious free cash flow which it is able to invest in new projects, particularly in rapidly growing emerging markets.

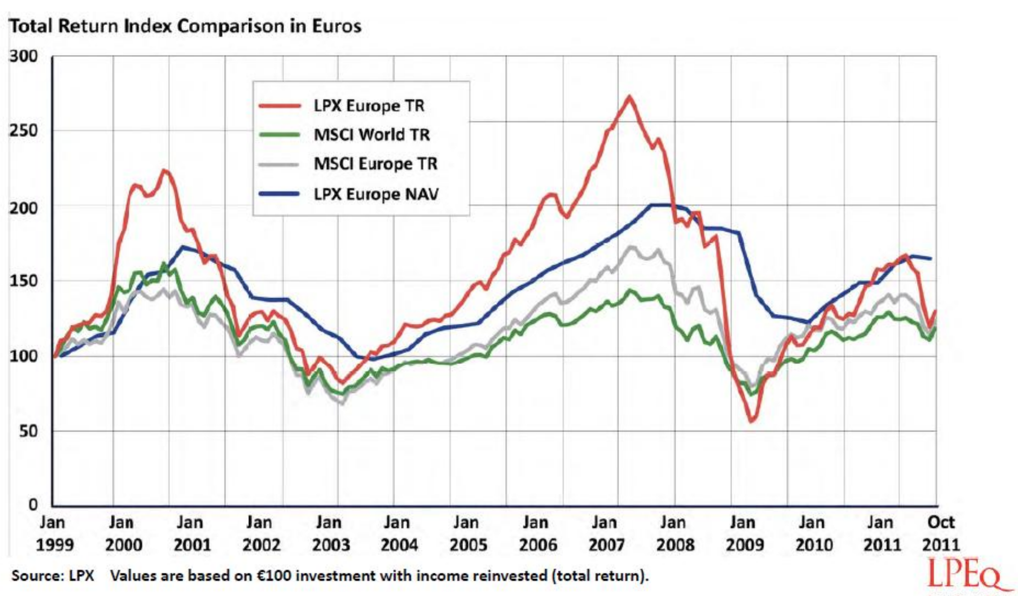
When we bought Vopak's shares, the company had a chequered track record. They had recently sold their low margin chemicals distribution business and still owned a collection of low-return assets such as river barges in Europe that they pledged to sell. Within the group, they owned high return storage tanks in strategic locations which was the core business that management pledged to focus on and grow. We felt at the time that Vopak's shares which were trading at a P/E of 9 undervalued the business. Since then, management has executed brilliantly. The company's EPS has more than tripled as the bar chart below shows and the company's P/E has doubled, leading to us make 6 ½ times our money plus dividends. We sold the company's shares for 18.5 times 2011 estimated EPS and 15.5 times 2012 estimated EPS. I suspect that we may have "left some money on the table" as this represents a more than 20% discount to the average valuation of the number 2, 3, 4 and 5 players in the market which are all listed in the US.

Source: Bloomberg

Hamworthy was a gem that Georgie discovered in June 2009. Between June and October 2009, we bought more than 1% of the company. This company combined all the attributes that we look for in a company in which we want to invest: a good business that we understand with a strong track record, a bulletproof balance sheet, and a share price that significantly undervalued the business. Last year and the year before, during my summer breaks in England, I met Joe Oatley, the CEO, and Paul Crompton, the CFO, who I think are both first-class businessmen. Georgie wrote about Hamworthy at the end of August last year. In that newsletter, she explained why, although we had done well with the investment and Hamworthy's shares looked fully valued based on 2011 estimated earnings, she felt that the company's intrinsic value was about 80% higher than the company's share price at the time. She believed that the company's share price failed to reflect likely future earnings resulting from two new markets that the company is entering. In November, Wartsila bid for the company, offering a price that is about 60% higher than Hamworthy's share price at the end of August. Just prior to year end, we sold the entire shareholding at a small premium to the bid price for about $7 million which is more than three times our cost.

Our ongoing attraction to listed private equity funds

We have about $15 million at current market value invested in ten listed private equity funds. Over the years, we have built our knowledge and understanding of this market niche, largely as a result of our involvement with the Greenpark private equity secondaries funds during the past 10 years. There is a wide difference between the performance of well-managed and badly managed private equity funds (and even funds of private equity funds) so knowledge of the good and bad managers is imperative. Even just taking the average of all listed private equity funds in the UK and Europe, their NAV return has been about 3 percentage points a year higher than the MSCI World and MSCI Europe index during the past 12 ½ years as the chart below illustrates.



As the chart also shows, the share price return has lagged the NAV return, resulting in listed private equity funds in the UK and Europe currently trading at historically wide discounts to NAV. The dollar-weighted average discount to NAV of our listed private equity fund holdings is currently 44%. Moreover, the discount is significantly wider than the average discount to NAV of around 15% at which transactions in the private equity secondaries market are taking place. We think that this creates an investment opportunity and some of our holdings such as Conversus, LMS Capital, Ingenious Media and Northern investors are liquidating on an orderly basis and returning capital to shareholders. Others such as AP Alternatives and Pantheon are returning capital to shareholders and enhancing NAV per share at the same time by repurchasing shares in the market, while Partners Group Global Opportunities is returning capital by providing periodic opportunities for shareholders to tender part of their shareholding at NAV. One of our listed private equity funds, Heliad, has been a disappointment. We believe that some of the actions of Heliad's manager have not been in the economic interest of Heliad's investors. We are currently involved in litigation with Heliad. We have requested, via the Court, a Special Audit so that the actions of concern can be investigated. We are also involved in two other actions (a Shareholder Action and a Section 148 Letter) which we believe will enhance our case and enable us to claim for damages.

ASM International – perhaps a catalyst at last

The Fund's second largest holding is ASM International (ASMI) in which we have an investment worth $6.5 million. This is an Asian business that is listed in Amsterdam because the founder of the company, Arthur Del Prado, is Dutch. There are two parts to the business: the front-end business that makes deposition equipment for semi-conductor manufacturing facilities; and the back-end business that makes packaging and inspection equipment for LED and semiconductor chips and chipsets and surface mount technology (SMT) following the acquisition of Siemens' loss-making SEAS business in July 2010 for a nominal price of €1. ASM International participates in the back-end business through ASM Pacific Technology (ASMPT) whose shares have been listed on the Hong Kong Stock Exchange since 1989. It is the world market leader in the back-end semiconductor manufacturing business and has generated a compound annual return for its shareholders since its IPO of 26% per annum in USD. Including reinvested dividends, shareholders in ASMPT have made more 150 times their money since 1989. ASMI owns 52.4% of ASMPT. Its stake was worth $2.3 billion at year end or €28.50 per ASMI share on a fully diluted basis.

The front-end business had for many years been lossmaking. However, as a result of moving the business to Asia to lower the cost base and the introduction of successful new products, the front-end business has had six consecutive quarters of double digit operating margins. The front-end business, which is 100% owned by ASMI is likely to have sales of about US$600 million in 2011 and earn about US$75 million net of tax. We reckon the front-end business (excluding cash) is worth about US$750 million. Prior to the turnaround of the front-end business, Applied Materials and another firm offered about US$600 million for the business. Excluding the convertible bond (which we count as an increase in the shares outstanding on the basis that they are in-the-money and therefore likely to be exercised), the front-end business has about €200 million in net cash. We therefore think that the front-end business including cash is worth about US$1 billion or about €12 per ASMI share. Therefore the value of ASMI's two businesses is about €40 per share, or nearly double the current share price.

In a conference call with analysts recently, Chuck Del Prado, ASMI's Chairman and CEO firmly reiterated that maximizing shareholder value is high on his list of priorities and he is well aware that the fair value of ASMI's front-end business is not reflected in the share price. The agenda for their AGM being held in the third week of May will be published at the end of this month. We think there is a good chance that ASMI will finally take action that should lead to the fair value of the front-end business being reflected in the share price.

A couple of new holdings in the top 10

Last year, we invested just over $5 million each in two high conviction investment ideas: Barco and Dolphin Capital. Barco came to my attention earlier this year when I read an article about the rapid growth in the installation of digital projectors in China. Barco is the global market leader in digital projectors with a 40% market share. Around the same time, I went for medical check-ups in Miami and noticed Barco digital displays that were being used by doctors to look inside whatever part of the body they were examining. Barco's digital displays increase the productivity of doctors and radiologists because they can make about 50% more diagnoses per hour. The display is also much more crisp and clear than earlier displays which improves the accuracy of diagnoses. Barco is a world leader in digital displays which it provides to medical equipment companies like Siemens and Philips who integrate them into their diagnostic equipment. This business is growing at about 10% per annum and tends to be non-cyclical.

When I looked at the company in more detail, I discovered a world-class business that had historically been poorly managed with a chequered track record. In January 2009, Eric Van Zele, who was a Barco non-executive director with a track record of turning around businesses, was appointed CEO of the company. Barco sold a number of underperforming businesses and focused on its most profitable businesses with good growth prospects. Van Zele has done a fantastic job of turning Barco around. In 2009, the company lost money. In 2010, EPS were €3.66 and this year, they are likely to increase to €5 in 2011.

The market's perception is that Barco is still an underperforming cyclical business. We think the reality is much better. Barco is now debt-free. At the end of 2015 there will be 100% conversion to digital projectors and Hollywood studios will no longer release celluloid film. Digital saves the studios huge amounts of money. Based on Barco's global market share, the company should generate sales of about €300 million per annum, or about 30% of this year's group sales, during the remaining 4 years of the conversion to digital projectors. About six weeks ago, Georgie met with the company in London and they said that there has been no impact on order intake from the current economic downturn. In fact, in some areas, business is better than anticipated. Van Zele has a target of increasing operating margins to 10%. The company told Georgie that they expect to generate operating margins of at least 10% on 90% of the group's sales by the end of 2012. The market is expecting Barco's EPS to decline in 2012. We think sales will increase by about 10% and EPS will increase to around €6.50. If we are correct, Barco is stunningly undervalued with its share price at €39 given that it is a global market leader with good growth prospects and a pristine balance sheet.

Dolphin Capital is a real estate development company that is listed on the AIM stock exchange in London. It was brought to my attention when I had lunch with a former non-executive director of the company who I have known for years. The company owns 63 million square metres (about 15,000 acres) of prime oceanfront land totaling 59 kilometres of coastline in Cyprus, Greece, Croatia, Turkey, the Dominican Republic and Panama. The company has net assets of €1.2 billion, no bank debt at the company level, and a group debt to asset ratio of 25%. All the debt is held in Special Purpose Vehicles (SPVs) through which they own each of their developments. Around 80% of the debt is in one subsidiary that operates in Cyprus and this debt is in the form of long-term asset-backed loans. I see very low risk of Dolphin Capital going bust.

The company just needs to sell one or more of their non-core projects at close to NAV and repurchase shares with the proceeds and the share price could quickly double. They are currently in advanced discussions on a few potential sales of exits from non-core projects so there is hope for this to happen this year. When the luxury second home market recovers, Dolphin Capital's share price should rise several-fold. Dolphin Capital is being valued by the stock market at £150 million which represents a more than 85% discount to NAV.

This extreme discount is a result of a few factors: (1) the AIM listing which probably results in some neglect by investors, (2) certain institutional investors being dissatisfied due to a management tender offer attempt, together with Fortress, to increase their stake in the company at around double the current share price but at a large discount to NAV, (3) a small Eur8.5 million recent cash equity raise at a large discount to NAV (in order to preserve the company's cash reserves amidst turbulent market conditions) to settle some deferred cash obligations for investments made in Cyprus and Panama, (4) the fact that they own large developments in Greece and Cyprus which are countries at the epicentre of the European sovereign debt crisis. I have minimal concerns about the Greek and Cypriot exposure because prime oceanfront property in these countries will always be valuable – just look at the price of oceanfront land in scenically beautiful areas of Jamaica.

I went to see Dolphin Capital's development on Pearl Island on the Pacific side of Panama and checked out their Playa Grande development in the Dominican Republic with clients who have been there. Both are scenically beautiful and located close to international airports. The two principals of Dolphin Capital who I met separately have good pedigrees and own about 10% of the company so there is a strong alignment of interest. They have entered into alliances with strong upscale brands such as Aman, Nikki Beach, and Ritz Carlton Reserve that anchor their advanced projects. We are confident that when the luxury second home market revives, Dolphin Capital's NAV should increase and the massive discount to NAV at which its shares trade should narrow. This is a waiting game with no definitive timeline, but the upside is enormous and the downside limited on a five year view.

Palm oil, cars, oil and yogurt – we need them all to live our daily lives

We have about $6.5 million invested in three holding companies of the Fabri family in Switzerland: Socfin, Socfinasia, and Socfinaf. Vincent Bollore, the French billionaire, is also a large shareholder and a director of the companies. Although the companies have been around for decades, there are no brokers following the companies which trade on the Luxembourg Stock Exchange. The companies are deliberately low-key and only publish financial reports in French. I have attended two of their AGMs in Luxembourg to get a better understanding of the businesses and to meet Hubert Fabri and Vincent Bollore. The three companies own primarily palm oil plantations and processing plants, and secondarily rubber plantations which are located in Indonesia and West Africa. I have talked to other palm oil plantation companies and they all regard the Socfin group as one of the best-run plantation groups in the world. Over the past 10 and 20 years, all three companies have generated compound annual returns for shareholders including reinvested dividends of around 20% per annum in USD. Palm oil is the cooking oil of choice for Asians and as living standards there rise, palm oil consumption rises. Rubber prices have also been strong in recent years, largely due to growing demand for cars in Asia combined with tight supplies of natural rubber. On average, palm oil producers listed in Asia are trading at around 11 times 2011 estimated earnings which we think is around fair value. If we value our three Luxembourg-listed companies at this multiple and exclude net cash on their balance sheets and gains on biological assets, and non-cash gain that is recorded on the income statements of such businesses, we estimate that our companies are selling at a 60% discount to intrinsic value. Looked at another way, after deducting net cash from the market capitalisation of these businesses, we are paying about 4.5 times estimated 2011 earnings. Meanwhile, net of withholding tax, we are collecting a 4.5% dividend yield on these shares at current prices.

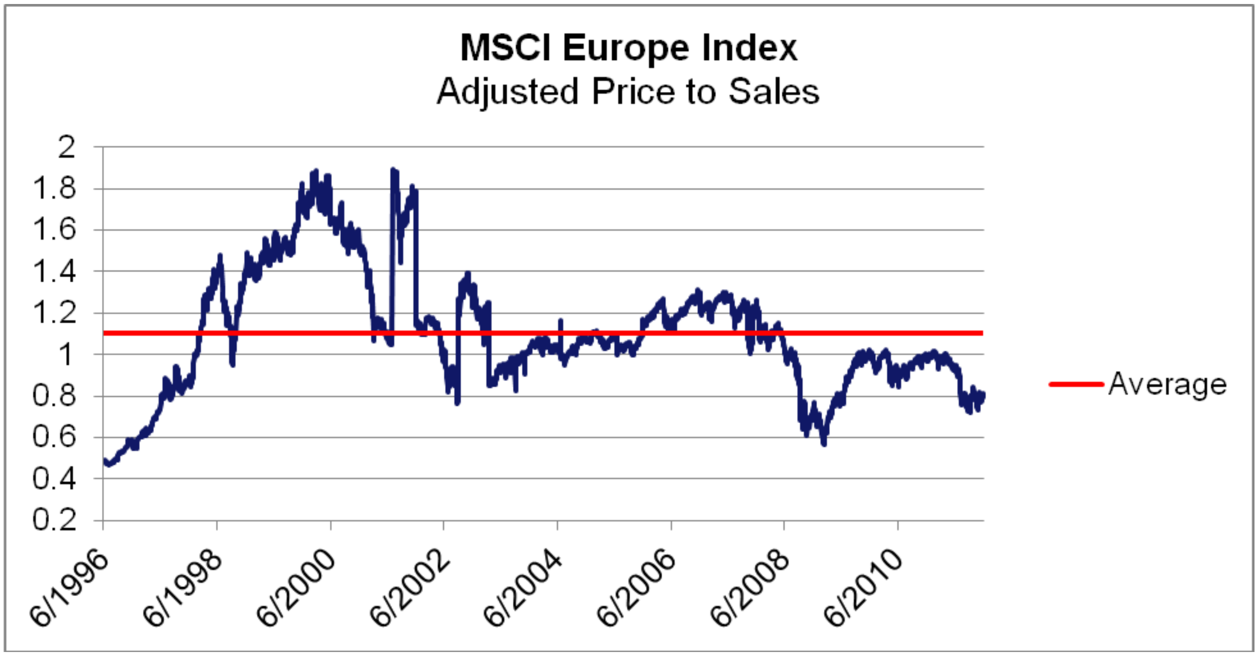
We have an investment of about $4.5 million in Exor, the holding company of the Agnelli family in Italy. Its shares trade at a 43% discount to NAV. Exor is virtually debt-free and has been using some of its dividend income to repurchase its shares in the market. About 25% of its NAV is accounted for by its shareholding in Fiat and about 35% by its shareholding in Fiat Industrial. Fiat is a volatile business that is dictated by the cycles of mass market car demand. Fiat nowadays makes all its money from three businesses: in Brazil where it is the market leader with nearly 25% of the car market; in the US where its 53%-owned Chrysler business is gaining market share; and from Ferrari which is highly profitable. In Europe, it is estimated that Fiat is losing about €800 million annually so if Italy does not reform and Fiat stops assembling cars there, its profits will likely increase. Fiat Industrial consists of Case New Holland which probably nearly doubled its EPS last year as a result of strong farm economics boosting demand for its tractors and combine harvesters. Both companies are led by Sergio Marchionne who is the most impressive manager in the global auto industry. If he delivers on his targets, Fiat's shares are trading at 1 times 2014 target net profit and Fiat Industrial's shares are trading at just over 3 times 2014 target net profit.

We have investments worth about $4 million each in Aker and Siem Industries. Both are holding companies of Norwegian billionaires, Kjell Roekke and Kristian Siem. Aker is a new holding for us this year. We bought the shares when the discount to NAV widened to nearly 50%. The discount has since narrowed to 44% and we already have a nearly 20% unrealized gain on our investment. Siem Industries is trading at a similar discount to NAV. Both holding companies are focused on the oil services sector. Over 80% of Siem's NAV is accounted for by its shareholding in Subsea 7, one of the world's largest offshore deep water oil services companies. We have met Kristian Siem twice as Siem is a Cayman company and he comes here at least once a year. He is very low key, but his track record is superb. Over the past 20 years, Siem Industries has produced a compound annual return for its shareholders of 20% per annum. Aker has only been listed since September 2004. Since then, it has produced a compound annual return for its shareholders of 24% per annum. Aker's portfolio of investments is more diversified. It has net cash on its balance sheet. The two largest investments are Aker Solutions, a builder of offshore oil rigs, and Det Norske, an oil and gas exploration which owns 20% of the huge Aldous oil and gas field that was discovered a few months ago off Norway.

We have $4 million in aggregate invested in Henex and Sofina, holding companies of the Boel family in Belgium. Henex is a larger investment for the Fund and it is the controlling shareholder of Sofina. Since both companies are trading at large discounts to NAV, we get a discount on a discount with Henex. Sofina trades at a 39% discount to NAV and Henex's look-through discount to NAV is 43%. Both companies have net cash on their balance sheet and have each delivered compound annual returns to shareholders of 12% per annum or nearly a tenfold return to shareholders over the past 20 years compared to a 4% compound annual return for the MSCI World index. Sofina is a diversified investment holding company with three investments each accounting for 10% of NAV: Danone (a French company with a portfolio of global food and beverage brands with high exposure to rapidly growing emerging markets), SES (a German company which offers broadband feeds globally for cable TV and telecom networks), and GDF Suez (a French company that owns electricity generation, gas distribution and environmental services businesses globally). Henex's three principal assets are shares in Sofina (54% of NAV), Danone (32% of NAV) and cash (8% of NAV). We particularly like the Danone business. Half their sales are in rapidly growing emerging markets and they own a valuable portfolio of brands in the dairy products market (primarily Activa and Danacol yogurts), bottled water (primarily Evian and Volvic), baby nutrition (Milupa, Cow & Gate, and others), medical nutrition (Nutricia, Fortimel, and others). We think that we are getting a bargain at a 40% discount to NAV buying Danone and a portfolio of global businesses with the Boel's excellent track record of managing the portfolio.

How cheap is Europe?

Most indicators suggest that European equities are trading at around 9 times 2012 estimated earnings. According to Bloomberg data, the P/E ratio of the MSCI Europe index based on trailing reported earnings is lower than it has been 98% of the time since 1995. There is clearly some downside risk to earnings estimates for next year, although as I have outlined in this report, we think there are a number of instances where we think the earnings estimates for our holdings are likely to be upgraded. One way of avoiding the cyclicality of profit margins in trying to determine whether a market is cheap or expensive is to look at the Price/Sales ratio. On the following page is a chart of the Price/Sales ratio of the MSCI Europe index. This confirms that European equities are historically cheap.



Another way of determining whether European equities are cheap or expensive, whilst ignoring the uncertainty of future earnings, is to look at the discount to NAV of our investment holding companies and closed-end funds. The discount to NAV is a pure indicator of sentiment. The average discount to NAV at which our investment holding companies and closed-end funds trade is now the widest in the Fund's history apart from during a couple of quarters at the depth of the global financial crisis.

There is an investment trust listed in London that follows a similar investment strategy to the Fund: British Empire Securities and General Trust. Our Fund has several holdings in common with the Trust. We often recommend it to people who cannot meet our minimum account size. Over the past 20 years, British Empire Securities has generated a 13% compound annual return in sterling for its shareholders. I knew the former investment manager of the Trust, John Walton, and we sometimes exchanged notes. In the recent Chairman's statement released with British Empire's final results, the Chairman wrote that the weighted average discount to NAV on the underlying investments of 39% was the highest level in their records. I e-mailed the investment manager, John Pennink, and asked him how far back these records go. He responded to say that they think this is the highest discount since the Trust started its present investment approach in 1985, although they only have hard data to back it up since 2002. Before 2002, the data was not tracked systematically and they pieced it together from annual reports and other sources.

Good global businesses for sale at cheap prices

This is the longest Chairman's statement that I have ever written. Last year, I spent many hours on the phone and in e-mails to clients reiterating the message that we invest in companies, not countries, in response to their worries about Europe. We have attempted to remove some of this "country risk" by hedging the Fund’s functional euro exposure by selling forward US$50 million of euros. The Fund owns shares in world-class businesses that do business around the world, and because of worries about Europe, we are getting these businesses at bargain prices. This lengthy report explains the quality of these businesses and why we are getting them at bargain prices. The businesses which we own that are explained in this report have an aggregate market value of about $65 million or nearly half the total value of the Fund’s invested assets. At some point, “normality” will return to Europe and hopefully the share prices of many of these businesses will increase to a level that is much closer to our estimate of intrinsic value. Even during the turmoil in Europe, as we explained, we sold shares in two businesses during the fourth quarter at close to our estimate of intrinsic value. Hopefully, this will give you the confidence needed to remain a shareholder and persuade some of you that, like my wife did recently, it makes sense to put money in the Fund at these prices rather than take money out.

Desmond Kinch, CFA

Chairman