Overseas Asset Management

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OAM European Value Fund

Dear Fellow Shareholder,

We live in a world of low investment returns and one where it seems that a worryingly high proportion of clients of financial service providers have been let down in one way or another. It therefore gives me great pleasure and satisfaction to report to the Fund's shareholders that we have delivered what we said we would, and more.

Historic and expected returns

When we launched the Fund at the end of 2002, we said that our objective was to provide shareholders of the Fund with risk-adjusted returns which exceed the Fund's benchmark index, being the MSCI Europe (US$) Index. During the Fund's first ten years, it returned 236% or 12.9% per annum to its shareholders compared to 69% or 5.4% per annum for the benchmark index. The vast majority of fund managers underperform their benchmark indices over 5 or 10 years after taking account of fees and expenses. There are few European funds that have done as well as our Fund over the past 10 years – looking at the Bloomberg data base of European equity funds, we think that puts OAM European Value Fund in the top 1% after taking into consideration double-counting of the same fund with multiple share classes. Last year, the Fund returned 16.6%, its eighth year out of ten in which it beat its benchmark. It also marks 8 years out of 10 with positive returns. We think this demonstrates a remarkable level of consistency. I am not just patting myself on the back; Georgie and Mills deserve equal credit as they contributed to this performance through their superior investment analysis.

Our other investment objective when we launched the Fund was to provide returns over the first five years of the Fund's life which are at least three times higher than the yield on 5-year US Treasury bonds which at 4th December 2002 yielded 3.2% per annum. During the first five years of the Fund's life, we beat that absolute return objective by a very wide margin. In the past five years, we have had to contend with the worst global financial crisis since the Great Depression, a European sovereign debt crisis, a European banking crisis, and the threat and uncertainty of whether the European Union would survive. Yet, over 10 years, the Fund has provided an extremely attractive investment return to its shareholders.

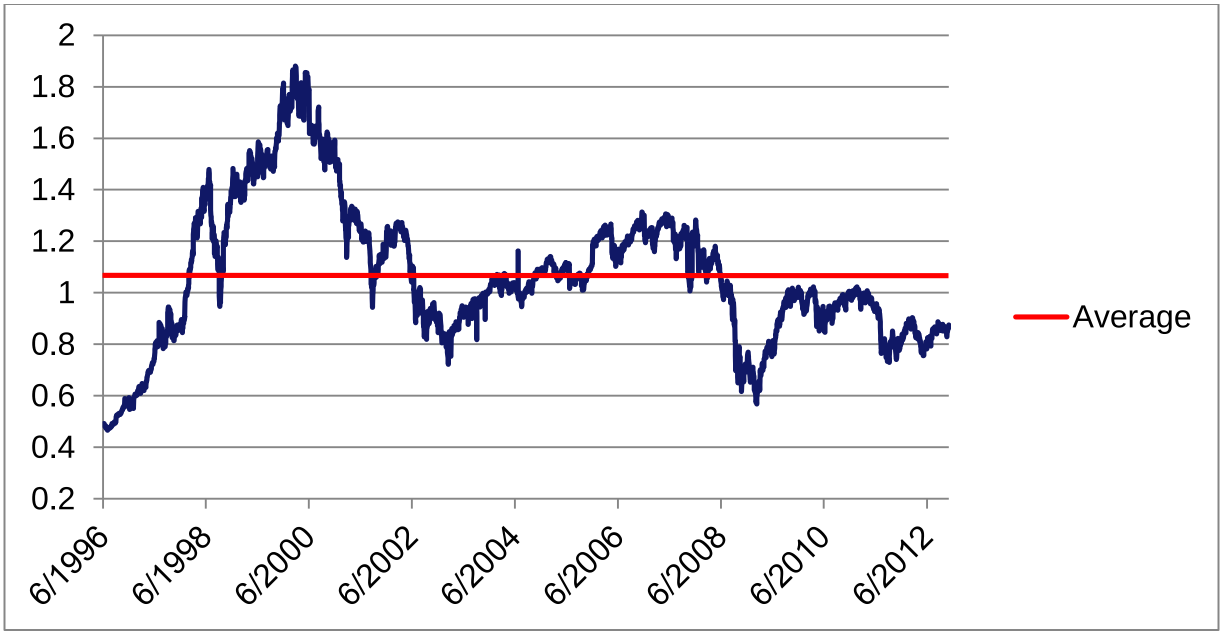
What is a realistic objective for the next ten years? Our principal objective continues to be to do better than the MSCI Europe (US$) Index and to do so with lower volatility. Coming up with an absolute return objective is more difficult. A starting point is the yield of 10-year US Treasury bonds which is currently 1.75%. UK, French, German, Dutch, Scandinavian, and Belgian 10-year government bonds yield between 1 and 2%. I think a realistic objective is to provide the Fund's shareholders with a return that is at least five times higher than the current yield on 10-year US Treasuries. In most times, that would seem to be an outrageously optimistic target. But, in today's world of financial repression, where governments and central banks manipulate not just short-term interest rates but also longer term rates, it shows how attractive an investment we think equities are relative to bonds and cash.

Current valuations

The most important determinant of future returns is current valuations. We launched the Fund 10 years ago when European equity valuations were very attractive and bargains were plentiful in Europe. When we drafted the Fund's prospectus at the end of 2002, we wrote:

"The MSCI Europe (US$) Index which is the Fund's benchmark index declined by 44% in dollar terms from its peak in March 2000 to early December 2002. The Investment Advisor believes that current valuations in Europe are attractive. In particular, the dividend yield of the MSCI Europe Index is similar to the yield on 5-year government bonds of the largest members of the European Union. The Investment Advisor highlights this fact and compares it to the United States where the last time that dividend yields on equities exceeded the yield on 5-year government bonds was in the late 1950's. The dividend yield on European equities is currently higher than the yield on short-term government debt. Price earnings ratios in Europe are currently close to their lowest level relative to the United States in at least thirty years according to Morgan Stanley Capital International."

The MSCI Europe (US$) Index is currently 30% below its peak in October 2007. Today, European equity valuations are almost identical to where they were at the end of 2002 on the basis of the Price/Sales ratio (see chart below) which is the valuation indicator that I most favour for evaluating where a country's or region's stock market is in the valuation cycle. Moreover, European equities are 35% cheaper than US equities based on Price/Sales which is similar to the valuation discount that prevailed at the end of 2002. We split the Fund's investments roughly equally between operating companies that we then sub-divide into market leaders and deep value equities, and asset-based investments which we sub-divide into investment holding companies and closed-end funds. Today, the average P/E ratio of our operating businesses is just over 9 on a dollar-weighted average basis and the average discount to NAV of our asset-based investments is nearly 40%. These valuations are almost identical to what prevailed ten years ago.



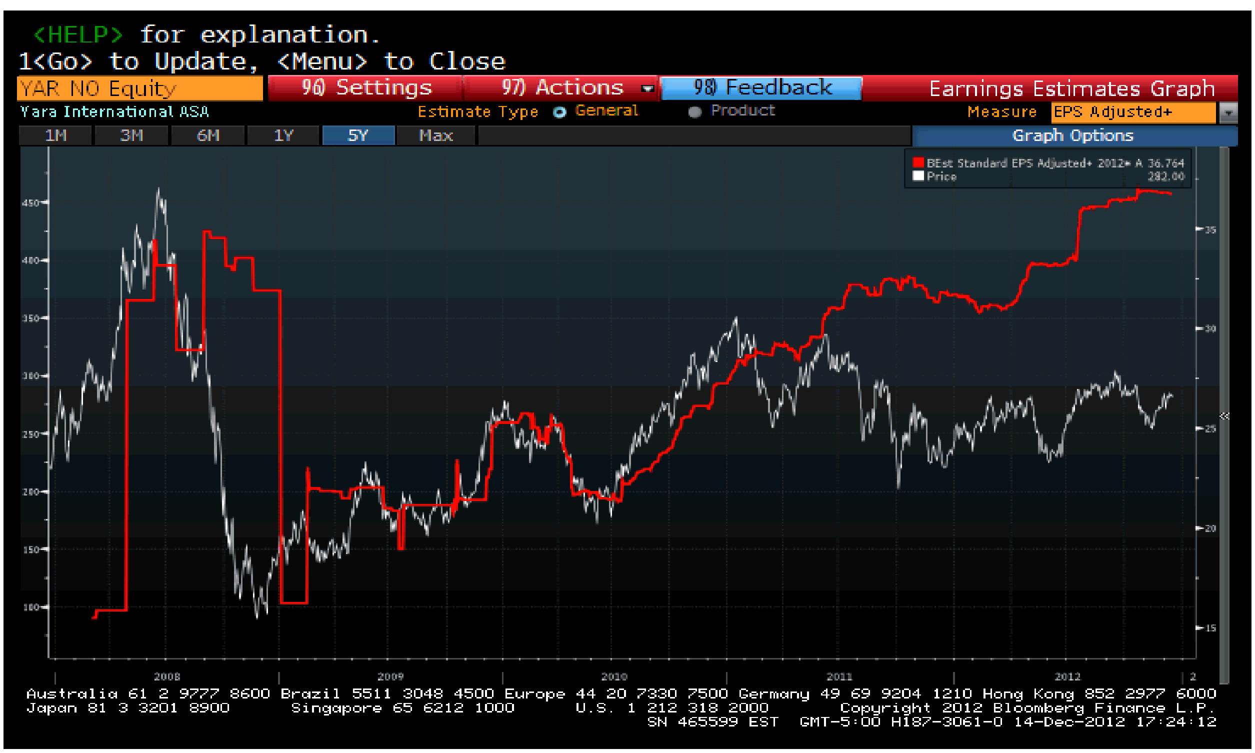
Yes, Europe is probably more of a mess today than it was 10 years ago, but the average dividend yield in Europe is currently around 4% compared to 5-year government bond yields outside the PIIGS (Portugal, Ireland, Italy, Greece & Spain) averaging 0.5-1%. Even in Italy, the only one of the PIIGS where we have equity exposure, the dividend yield of the equity market is higher than 5-year Italian government bond yields. We therefore feel that current valuations validate our new objective to provide the Fund's shareholders with a return over the next 10 years that is at least five times higher than the current yield on 10-year US Treasuries.

A European equity fund but with global exposure

We have explained *ad nauseam* to clients that OAM European Value Fund may invest in equities listed in Europe but for the most part, the companies in which we own shares do not rely on domestic consumer demand in Europe. That is just as well because debt deleveraging and demographic factors will almost certainly lead to tepid growth or even contraction in domestic consumer demand in most European countries for many years to come. We are a value investor whereby we typically aim to buy a dollar bill (which we refer to as our estimate of intrinsic value) for 60 cents or less (the price that we pay). However, our analysis is not static, but dynamic. We tend to look for investments where we think the intrinsic value per share is likely to grow over time, certainly by more than 5% annually and preferably by more than 10% per annum. If we get our analysis right, then we should get a "double whammy" where the discount to intrinsic value narrows <u>and</u> the intrinsic value increases. This almost always means that we need to look at companies that are not reliant on European consumer demand. So that you can get a better understanding of our analysis, I will now write a paragraph explaining the investment rationale for each of our 15 largest holdings that cumulatively account for half the Fund's net assets. Here follows our analysis of these holdings covered in order of the size of our investment.

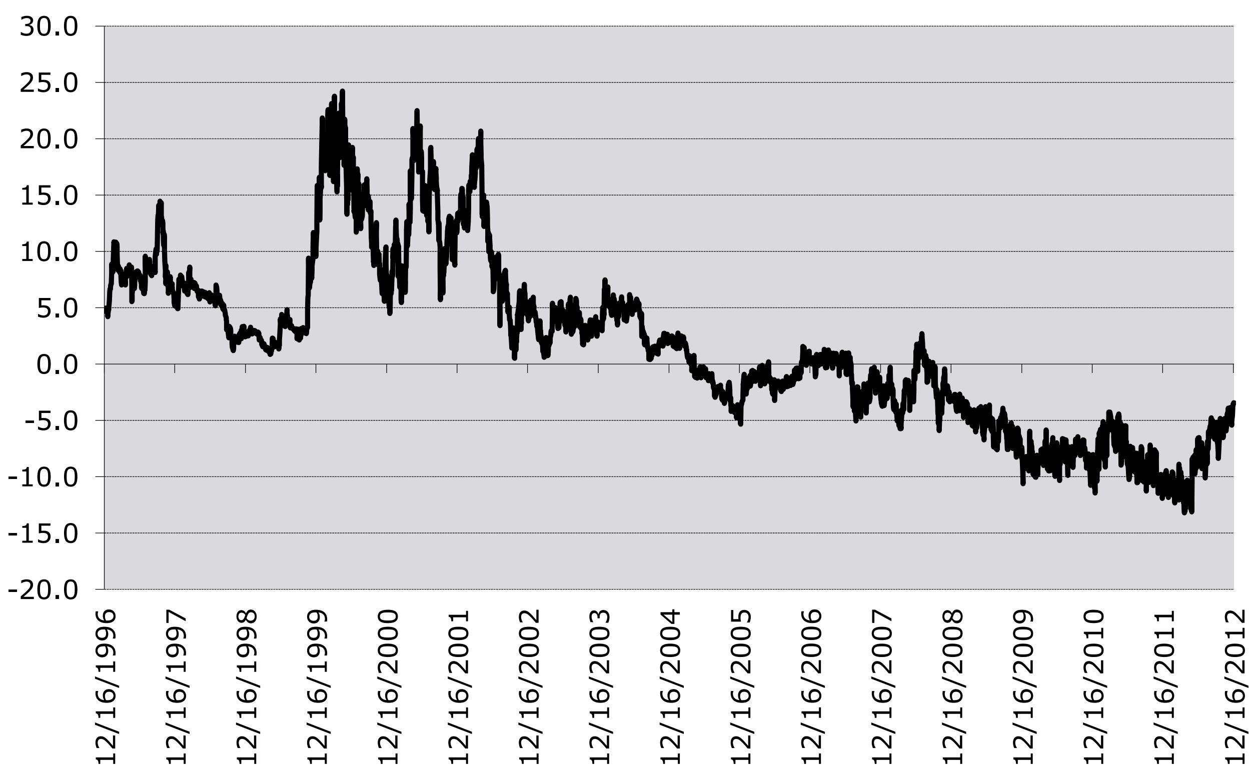
Yara International

We have owned shares in Yara International since it was spun off from Norsk Hydro in March 2004. Including reinvested dividends, Yara has generated a compound annual return for shareholders of 26% per annum in US Dollars. It is the world's largest nitrogen fertilizer company. The main determinant of Yara's earnings is the urea price which in turn is to a large extent determined by agricultural commodity prices on which we are positive. Urea prices are cheap at the moment relative to grain prices, largely because China dropped export tariffs on urea for longer than anticipated last year and exports of urea from China grew by about 40% as a result. In spite of this headwind and the competitive threat of cheap US natural gas (the main feedstock for nitrogen fertilizers), Yara was still able to comfortably exceed analyst's estimated earnings so far for 2012. This is a testament to the quality of Yara's senior management and the overall quality of the business which I think analysts continue to underestimate. Every year that Yara has been listed, other than 2009, it has generated a return on equity of more than 20% and it has compounded its earnings per share (EPS) by 20% per annum during that period. Yara is a highly free cash flow generative business. In the past eight years, it has spent NOK 5 billion to buy back 12% of its shares and has paid out another NOK 9 billion in dividends. Just in the past four years, it has reduced its net debt by NOK 24 billion to virtually zero. This compares to a current market capitalisation of NOK 79 billion. We continue to believe that the shares are significantly undervalued trading at 7.5 times 2012 estimated earnings and a 13% free cash flow yield. Yara continues to exceed most analysts' expectations as the chart below of its estimated 2012 EPS in red shows. The chart also highlights the degree to which the Yara share price shown in white has lagged the EPS estimate upgrades. We think Yara's intrinsic value is more than 50% higher than its current share price. Meanwhile, the company has demonstrated the ability to compound intrinsic value at an attractive rate.



ASM International

In last year's Chairman's statement, I wrote: "We think there is a good chance that ASM International will finally take action that should lead to the fair value of the front-end business being reflected in the share price." As I explained in prior letters, there are two parts to ASM International: the highly profitable back-end business which is listed in Hong Kong which is the world market leader in inspection, testing and packaging equipment for semiconductor manufacturers; and the front-end business which has a more chequered track record but which has been turned around since the manufacturing facilities for that business were moved to Singapore a few years ago. At ASM International's AGM in May, a representative of Arthur del Prado, the founder, Chairman and major shareholder, said that Mr. del Prado now believes that a pro-active strategy is needed to address the valuation of the company and suggested that ASM International be split into two separate entities. So far, the options for splitting the company are being evaluated by an investment bank and we expect the results of that study to be announced shortly and action to be taken this year. The chart below shows the implied value of ASMI's front-end business based on the ASMI share price. We think the intrinsic value of the front-end business is about €8 per share so if the market recognizes this value following a reorganisation of the company, it would represent upside of €11.50 per share or nearly 45% from the current share price. That is the short-term catalyst. Meanwhile, ASM Pacific, where the majority of the value of ASM International lies, is likely to continue increasing its intrinsic value at an attractive rate. Over the past 20 years, ASM Pacific's share price has risen more than 50 times and generated a return of 28% per annum for its shareholders.



Barco

Barco is the global market leader in digital projectors for cinemas with a 40% market share, and the world leader in digital displays which it provides to medical equipment companies like Siemens and Philips who integrate them into their diagnostic equipment. The company is debt-free and generates prodigious free cash flow. Analysts have consistently underestimated the remarkable turnaround at Barco during the past three years as shown by the chart below which shows 2012 estimated EPS in red and the share price in white. From 1997-2007, Barco's profits moved essentially sideways. In 2008, profits more than halved and in 2009, the company lost money. Since then, underperforming businesses have been sold and revenues have compounded at about 20% per annum during the past three years, with operating margins increasing to 5% in 2010, 7.5% in 2010, and the company targeting increasing operating margins to 10%. In spite of being a world market leader with a global spread of sales and profits, being debt-free, and consistently beating analysts' expectations, Barco is still valued at only 7.5 times this year's estimated earnings.

Socfin group

We have investments in the shares of Socfin, Socfinasia and Socfinaf which are family-controlled investment holding companies that are listed in Luxembourg but which own palm oil and rubber plantations and processing facilities in South East Asia and West Africa. These are extremely well-managed plantation companies that have been in existence for many decades. During the past 10 years, shareholders in these companies have made 5-10 times on their investment inclusive of reinvested dividends, or 20-28% per annum. The companies have strong balance sheets. Socfinasia has net cash equivalent to 18% of its market capitalisation. Excluding cash and gains on biological assets, Socfinasia is currently valued at 8.5 times this year's estimated earnings. That compares to an average of about 16 times earnings for palm oil companies listed in Indonesia, Singapore and Malaysia. Socfinaf essentially has zero net debt. Its shares are even cheaper, trading at less than 8 times this year's estimated earnings. Socfin owns controlling interests in Socfinasia and Socfinaf. It has net cash equivalent to 13% of its market capitalisation and trades at a more than 20% discount to the sum of its parts. Although the price of palm oil has declined by more than 20% this year, we remain positive. Palm oil remains the edible oil of choice for Asians and Africans where living standards and the consumption of meat are rising rapidly, and it is increasingly being used in the West because of its absence of harmful trans fats. As a result, consumption of palm oil has increased by more than 7% per annum during the past 20 years. Currently, soybean oil is nearly 50% more expensive than palm oil which is close to a record premium so we expect substitution of palm oil for soybean oil to take place until a closer relationship returns.

Volkswagen & Porsche

We own both Volkswagen ordinary shares and Porsche SE shares. Porsche SE is a now a pure investment holding company that owns 50.7% of Volkswagen's ordinary shares. Earlier this year, Porsche SE sold its Porsche AG car business to Volkswagen so that Porsche SE now consists of just VW ordinary shares and net cash of nearly €3 billion. It also has a potential liability from several lawsuits brought by hedge fund investors who lost money shorting VW ordinary shares during a massive short squeeze in 2008/09. Porsche SE currently trades at a 30% discount to the sum of its two parts, ignoring the risk of lawsuits, worries of which we think are exaggerated. Historically (excluding the abnormal 2008/09 period when VW ordinary shares traded at a massive premium to VW preferred shares), the ordinary shares which carry voting rights traded between a premium of 75% and a discount of 15% to the preferred. Today, the ordinary shares trade at a 6% discount to the preferred - an almost unique situation where voting shares rarely trade at a discount to non-voting shares. We are very positive on VW. It has an extremely strong balance sheet with net cash of almost €10 billion. This is important given the need for a strong balance to raise funds cheaply for offering car financing to buyers, and the need for capital to pay for developing new models. VW continues to gain market share globally while its profit margins are among the highest in the industry, with the prospect for further improvements. Its main luxury brand, Audi, is taking market share from Mercedes and BMW and increased deliveries by 13% in the first 11 months of 2012. Audi contributes almost half the group's profits. VW is the market leader in the rapidly growing Chinese auto market where it generates nearly half the group's profits. In spite of the slowdown in China, during the first 11 months of 2012, VW sold 20% more cars in China than in the corresponding period of the prior year. Yet, VW trades at about 6 times earnings excluding one-off gains.

Ashmore Global Opportunities Fund

In October, the discount to NAV at which this closed-end fund's shares trade widened to 45%. In reaction, we bought more of the USD class shares and established a holding in the Sterling class shares. I then wrote to the fund's Board in early November pointing out that "the Company's share price discount to NAV has widened significantly to 45%, making it a significant outlier (in a bad way) in the closed-end fund sector." I added that "this must be a major embarrassment to Ashmore, the manager, who are a member of the FTSE 250 index and a leading investment manager in emerging markets" and "a major impediment to Ashmore raising new funds." I suggested to the Board that "in light of the very wide discount to NAV at which the Company's shares are trading, the ineffectiveness of the small share repurchases and dividend, and the disappointing NAV performance, we believe that the Board needs to take drastic action in fairly short order. Specifically, we think that the Company should announce a revised policy whereby it undertakes to make no new investments or capital commitments and that the Company will return capital to shareholders through tender offers, dividends or capital distributions in a tax-efficient manner until the original capital raised in the Company's IPO has been returned to shareholders." I am pleased to report that the Board listened and followed my suggestion. They went one step further and on 12th December, they announced a "managed wind down" whereby the Company's assets will be realised for cash over the next few years and returned to shareholders. The share price of the fund bounced as a result of the Board's announcement. We think there is still considerable upside for investors. The current NAV per share is just over $8 per share compared to a share price of $5.25. As recently as September, my main contact at Ashmore suggested that the Company could increase the NAV to $15 per share by the end 2016. We think that is probably too optimistic but if the fund can return $12 per share over 3-4 years during a managed wind down, that will represent an excellent return for shareholders based on the current share price.

Exor

We own Exor preferred shares. Exor is the listed holding company of Italy's Agnelli family. There is a common perception that Exor's main asset is Fiat. Currently, Exor's 30% shareholding in Fiat accounts for less than 20% of its NAV. Fiat is losing large amounts of money in Europe but it is highly profitable in Brazil where it is the market leader selling nearly one in four cars. It also owns nearly 60% of Chrysler which is very profitable and has been growing market share with reported sales up over 20% so far in 2012. Fiat also owns the very profitable Ferrari brand. We think Fiat will be a very good investment if Sergio Marchionne meets his 2014 targets for the company. Exor's principal asset is its 30% shareholding in Fiat Industrial which accounts for more than 40% of its NAV. Most of Fiat Industrial's profits are generated by its Case New Holland (CNH) agricultural equipment unit with the balance coming from its Iveco trucking unit. CNH is performing well due to strong farming economics – something we expect to persist for the foreseeable future – and Fiat Industrial has consistently exceeded the targets it set in 2010. Based on consensus earnings estimates, Fiat Industrial is trading at 11 times 2012 estimated earnings with EPS estimated to increase by 20% per annum during the next two years based on analysts' consensus. If Fiat Industrial meets its targets, earnings will grow a lot faster than consensus estimates. Exor's other important asset is SGS, a Swiss-listed global leader in inspection, verification, testing and certification services, which accounts for more than 25% of Exor's NAV. SGS's shares look fully valued, but they are a useful non-cyclical offset to Exor's more cyclical investments. During the past 10 years, SGS's EPS have compounded at 20% per annum and expectations are that the company should continue growing its earnings at 15% per annum for the next few years. We think that Exor's NAV is likely to increase over the next few years. Meanwhile, we think the share price will increase more significantly as its discount to NAV narrows from 43% as investors realise that Exor has a collection of attractive assets. We also think that it is only a matter of time before the Exor preferred are exchanged for Exor ordinary shares in order to simplify the company's structure. We think this is likely to take place on a 1 for 1 ratio. Exor ordinary shares currently command a 14% premium to the preferred shares.

Sofina & Henex

We have an investment in the two listed Boel family holding companies, Henex and Sofina. The larger investment is in Henex which is at the top of the control pyramid and is the major shareholder in Sofina. Sofina is a widely diversified holding company with its three largest investments – in Danone, Colruyt and SES Global - accounting for an aggregate 30% of NAV. Henex is more concentrated with Danone accounting for a third of NAV and Sofina (on a look-through basis) accounting for more than half its NAV. Both Henex and Sofina have strong balance sheets with net cash of 10% and 25% of market capitalisation respectively. During the past 10 years, Henex and Sofina have provided shareholders with 13% and 12% compound annual returns. We think the shares of Henex and Sofina are very attractive at 39% and 38% discounts to NAV respectively on a look-through basis. During the past 10 years, the shares of both companies traded within a range of 20-45% discounts to NAV so they are currently trading at historically wide discounts to NAV. We expect the NAV per share at both companies to grow at an attractive rate, helped by continuing share buybacks, and the share price to do even better as the discount to NAV narrows.

Dolphin Capital

We have roughly equally valued investments in Dolphin Capital's ordinary shares and convertible bonds. Dolphin Capital owns a large land bank of oceanfront property in desirable tourism markets within close proximity of an international airport. Their land is in less expensive, less developed parts of the Mediterranean and Caribbean. I visited their Pearl Island project off the Pacific coast of Panama in 2011 and their Porto Heli projects in Greece in 2012 and spoke to clients who have played golf at Playa Grande, their project on the north coast of the Dominican Republic. The share price of Dolphin Capital is 26p and the NAV per share is 89p. The US Dollar convertible bonds currently yield just over 12.5% per annum to maturity in March 2016 and are convertible to ordinary shares at 50p per share. There are two principal reasons why Dolphin's share price is trading at a 70% discount to NAV. The first is that property development companies burn cash and are reliant on selling property to maintain liquidity and service debt. Potential investors are worried that Dolphin may run out of cash. The second is that potential investors are skeptical that the Colliers valuation of Dolphin's properties which forms the basis of the NAV is realistic given the overhang of distressed resort property for sale or potentially for sale in the Caribbean and Med. At the end of September, Dolphin announced the placing of €50 million of new shares that was underwritten by Third Point, a large New York hedge fund who now have a right to a seat on the Dolphin board. In addition, they announced €43 million in asset sales at Pearl Island and Porto Heli (excluding sales made by its non-consolidated Aristo subsidiary) between June and September at a 48% premium over NAV and 91% premium over cost. Dolphin's loan to value ratio is only 16% - €140 million in debt on €900 million in assets – and all the debt is held within the project special purpose vehicles, apart from the convertible debt. There are only US$40 million in convertible bonds which is the only debt that has a parent company guarantee. Dolphin has enough cash to fund its development plans for the next two years. We are confident that they will make sufficient asset sales by March 2016 that the bonds will either be redeemed at par or we will be able to boost our return by converting to equity. Meanwhile, we collect tax-free semi-annual interest coupons on the bonds.

Greenpark International Investors, III L.P.

We are an investor in Greenpark Capital's third limited partnership. The partnership which invests in private equity secondaries had its final closing in 2007 – not an ideal time for investing in any kind of equity. The partnership has a 10-year life, extendible by up to three years, and we will be receiving distributions during the remaining five years. Since some of the partnership's capital was invested post-crisis at attractive prices, we think there is embedded value within the partnership that is not reflected in its fair market value. We therefore think the partnership ought to generate at least a 5% internal rate of return from today's valuation during its remaining life. While this is below our target return for the Fund's investments, this is an illiquid limited partnership that we need to hold until the end of its life. We also think there is little risk of capital loss from this investment and it will diminish in size as the Fund receives distributions.

Siem Industries

Siem is a Cayman-incorporated holding company that is listed in the US but its principal assets are Norwegian-listed oil services and shipping businesses. The shares are fairly illiquid but we feel comfortable with the illiquidity as we think its intrinsic value will compound at an attractive rate of return. Over the past 20 years, Siem's share price is up 33 times and shareholders have generated a 19% compound annual return. The shares are tightly held and Kristian Siem, the founder, owns 78.5% of the company. Siem's principal investment is a 20% shareholding in Subsea 7, one of the world's largest deep sea oil services companies, which accounts for more than 80% of Siem's NAV. Subsea 7 is growing its earnings and has a strong outlook. Following the Deepwater Horizon disaster in the Gulf of Mexico, oil companies have been careful when awarding large subsea contracts. With subsea oil services capacity in tight supply and expanding production of oil offshore, there is a strong possibility of pricing in the industry improving. Instead of paying 14 times earnings for Subsea 7, we would rather own Siem Industries which trades at a 46% discount to NAV.

Dragon Oil

Dragon Oil is a Turkmenistan oil exploration and production company whose shares are listed in London. It is 54%-owned by Emirates National Oil Company (ENOC). At the end of 2009, ENOC tried unsuccessfully to buy the rest of Dragon Oil at an enterprise value (market capitalisation less net cash) almost equivalent to the company's current enterprise value. Yet, Dragon Oil's net profit in 2012 will be more than double what it earned in 2009. We think that ENOC's ownership reduces the political risk of owning shares in an oil company operating in this part of the world. Meanwhile, Dragon Oil is steadily repurchasing shares in the market so ENOC is gradually increasing its percentage shareholding in the company by stealth. The attractions of owning Dragon Oil are its valuation and its rising reserves and production. Cash accounts for nearly half Dragon Oil's market capitalisation. After deducting cash, Dragon Oil is trading at a valuation of only 3.5 times earnings. Its reserve life is currently over 30 years and in 2011 the reserve replacement ratio was 183%. On an enterprise value per barrel of proven and probable reserves valuation basis, Dragon Oil is trading at $3 per barrel, compared with an average valuation for comparable London-listed exploration and production companies of around $14 per barrel. We think that such a low valuation is unwarranted given the political risk and the upside is considerable. We have not visited Turkmenistan but every political risk report that we have read to date suggests that this is one of the more stable former Soviet republics. Intrinsic value is increasing at an attractive rate as Dragon Oil adds to its reserves, so even though this company has higher political risk than we are accustomed to accepting, we think the potential return from owning it outweighs the risk.

Aker ASA

In September 2011, the Fund bought shares in Aker at a nearly 50% discount to NAV. In November 2012, we sold just over a third of the investment at a 70% profit and collected a dividend equivalent to nearly 7% of our purchase price. We still think Aker's shares are attractive, albeit not as attractive as they were when we bought them. The shares currently trade at a 36% discount to NAV and yield 5%. Kjell Inge Rokke, a Norwegian billionaire, owns 68% of Aker ASA. Since Aker ASA listed in 2004, shareholders have generated a 26% compound annual return in US Dollars. More than two-thirds of Aker's NAV consists of shares in listed Norwegian companies in the oil and gas sector, the two largest being Aker Solutions and Det Norske. Aker Solutions is a leading oil services company, similar to Subsea 7, and trading at a similar valuation. The company is well positioned, particularly on the Norwegian Continental Shelf, where activity is at record levels due to recent discoveries. Aker Solutions set a target in 2010 to double revenues between 2010 and 2015. In December 2012, Aker stated that the target growth rate is on track and growth at 15% per annum is likely to last at least until 2017 based on its backlog and industry projections. There was also a target to improve EBITDA margins to 13-14%, from the current 10.3%, which was increased to 15% by 2017 at its December presentation to analysts and shareholders. If the targets set in 2010 are met, then earnings per share in 2015 could be around NOK 17, up from less than NOK 6 in 2011. This would equate to a compound annual growth rate in earnings of 29%. Aker ASA's other large asset is its 50% shareholding in Det Norske, a Norwegian exploration and production company. Det Norske has a 20% share of production from the recently discovered Johan Sverdrup field. This is the largest discovery on the Norwegian Continental Shelf since the 1980s. The field is thought to contain between 900 million and 1.5 billion barrels of recoverable oil. With these two excellent assets, we believe that Aker ought to be capable of growing its intrinsic value at an attractive rate. Mr Rokke set a target in 2010 of doubling Aker ASA's net asset value over a period of five years. He is a little behind on his target, but still believes that it is achievable. Achieving this target would result in net asset value of NOK 500 per share in 2015, up from NOK 320 today, a compound annual growth rate of around 16%.

Max Property

In March 2012, we established a new holding in Max Property. Max was listed in London in May 2009 when it raised £200 million at 100p per share. This closed-end property fund was launched to take advantage of opportunistic investments in the UK commercial property market. It is managed by Prestbury Investments which is owned and managed by Nick Leslau and Mike Brown, two of the savviest property investors in the UK. At the launch price, Och-Ziff, a successful hedge fund, invested £35 million and Nick Leslau and Mike Brown invested £25 million. The manager is not paid a performance fee unless shareholders have generated a preferred return of 11% per annum on their investment from launch. These factors result in there being an unusually strong alignment of interest between the manager and shareholders of Max. Prior to setting up Prestbury, Nick Leslau was the CEO of Burford Holdings plc where he generated average annual total returns of 34% from 1987-97 when he was CEO. From December 1997 to December 2003, Prestbury Group plc achieved average annual total returns of over 25%. These returns are cash on cash returns on the Prestbury portfolio which had been substantially realised by the end of 2003. Max is their latest attempt to generate superior investment returns for their backers. The fund is targeted to wind up after 7 ½ years so there are four years remaining. So far, they have assembled an attractive property portfolio with a NAV per share of 134p at 30th September 2012. The portfolio is broadly split between central London real estate bought at very attractive prices (namely St. Katherine's Dock and High Holborn Estate) and high yielding UK industrial property. We have made a nearly 25% return on our investment in Max Property so far as the share price discount has narrowed to 18%. However, we think this fund should not trade at a discount given its fixed life and superior management. Consequently, we think that we can generate a 15-20% compound annual return from this investment during its remaining life.

Raven Russia

The Fund invested in Raven Russia in July 2010. About a third of our investment is in the ordinary shares which pays a dividend yield of about 5% after deducting 10% withholding tax and two-thirds is in the preferred shares which yield 12% based on our purchase price - now down to just over 8% free of withholding tax after increasing in price by 50%. This is an impressively managed property company that has built a portfolio of well-located modern warehouses and logistics centres, mainly next to the ring roads around Moscow. The vacancy rate for modern warehouses in Russia is only about 1% and rents are rising. The capitalisation rate used to value Raven's warehouses is 11.7% which is roughly the same rental yield at which they recently acquired another warehouse outside Moscow. Raven's vacancy rate is 95% and rising so they are constructing two new warehouse complexes. The company has a strong balance sheet and we think the political risk of owning modern warehouses in Russia is low, being outside the contentious resources sector. An analyst in London that we know spent a day in the Moscow offices of an international law firm reviewing their titles to the properties they own which gives us added comfort. Anton Bilton, Raven's deputy Chairman and co-founder, has an investment of about $65 million in the company's ordinary and preferred shares. Their leases are mainly with multinationals operating in Russia where consumer spending is growing at a decent pace. Rents are usually denominated in US Dollars and leases tend to be quite long, giving Raven a large degree of predictability over cash flow. We think Raven Russia will increase its NAV per share at an attractive rate as rents rise and rental yields fall. The anticipated NAV per share growth plus a dividend which we expect to increase over time, and eventually a narrowing of the current 18% discount to NAV should lead to a further strong total return on our investment.

Conclusion

I hope that you share our view that the investment prospects for our investments described above are very attractive. We feel confident about the prospects for the balance of the portfolio. Where we do not feel confident is with the currency exposure given that this is a US Dollar-denominated fund. We therefore sold forward $25 million of euros for delivery in a year following the maturity of our $50 million forward sale of euros at the end of October. If the euro climbs much further, we are likely to increase the size of the Fund's currency hedge as we estimate that less than half the Fund's functional currency exposure is hedged. Our view is that fair value for the euro:US Dollar is about 1.20-1.25. The further the euro rises above that estimate, the more likely we are to hedge more of the Fund's euro exposure.

The Fund now has $180 million in net assets after receiving $16 million in subscriptions and $8 million in redemptions during the year. About 9% of the Fund's assets are currently in cash, some of which is needed as collateral for the currency hedge, and some of which is likely to be invested in a new investment idea that we have almost finished investigating.

Desmond Kinch, CFA

Chairman