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OAM European Value Fund

10th January, 2019

Dear Fellow Shareholder,

In 2018, the Fund's NAV per share decreased by 12.4% compared with a decline in its benchmark, the MSCI Europe (US$) index, of 17.2%. During the first 16 years of the Fund's life, its NAV/share compounded at 10.0% per annum. By comparison, the Fund's benchmark rose by 3.4% per annum. The benchmark figures used for comparison do not include dividends. We estimate that if dividends, net of withholding taxes, are included in the benchmark returns, they would increase by around 2.5 percentage points.

Last year, I wrote:

"The global stock market cycle is well advanced. However, this bull market has been focused on the US and the technology sector globally. European equities lagged US equity returns by a huge margin over the past 10 years as shown in the chart below, and last year was only the beginning of a rebound in the performance of European equities relative to US equities which we think has a long way to go."

The same applies a year later. The rebound in relative performance of European equities was further delayed, though there are tentative signs of a change in leadership, both geographically and sector-wise. Until its recent peak, the US stock market more than quintupled from its lows in early 2009, led by the technology sector. Since the end of September, the US equity market fell about 15%, with the technology sector falling by about 18% and European equities falling by about 13%.

The importance of CAPE

We have been concerned for a while that US equities, particularly the tech sector, are at best in the very late stages of the cycle, or at worst a bubble. At the peak in September, the cyclically-adjusted P/E (CAPE) of US equities was nearly 33. Over the past 125 years, the CAPE of US equities only surpassed 30 for a few months leading up to the 1929 Stock Market Crash and the Great Depression which followed; the period surrounding the Dot Com boom and bust in the late '90's and start of this century; and from July 2017-November 2018. After the Q4 2018 decline, US equities were valued at a CAPE of 28. We estimate

that fair value is about 18 so our view is that there is quite a bit of air left in the bubble. In contrast, the CAPE of European equities is about half that of the US. We highly recommend that clients view the following podcast with Rob Arnott of Research Affiliates at https://www.researchaffiliates.com/en_us/publications/video/663-webinar-replay-cape-fear-why-cape-naysayers-are-wrong.html to understand why CAPE is such a good indicator of future long-term returns. Other valuation indicators and warning signs are giving similar signals for the US equity return outlook. The aforementioned podcast, even though it was recorded nearly a year ago, contrasts the CAPE of US equities with the CAPE of European and emerging market equities.

A decline in valuation of the Fund's holdings

The table below encapsulates the decline in valuation of the Fund's holdings during the past year. Since there has been limited change in the composition of the Fund's largest holdings, it clearly illustrates that the Fund's NAV fell due to currency weakness and a fall in valuations rather than weak earnings or declining NAVs. At around 13.5 times earnings and a nearly 40% discount to NAV, we think the Fund's investments represent a bargain at current prices. I am putting my money where my mouth is and added to my investment in the Fund at the end of November, and will likely make further subscriptions on any significant weakness.

		Market Leaders	Investment Trusts	Holding Companies	Deep Value
	P/E	20.1x			13.8x
31st December 2017	Discount to NAV		-26%	-42%	
	Dividend yield	2.3%		1.6%	3.0%
	P/E	14.2x			13.1x
31st December 2018	Discount to NAV		-31%	-46%	
	Dividend yield	3.1%		3.2%	3.6%

Currency thoughts

Currencies are notoriously difficult to predict. However, we think there are clear long-term cycles in the Dollar which have averaged about 15 years as shown in the chart below of the US Dollar Trade-Weighted index to which we have affixed trend lines.

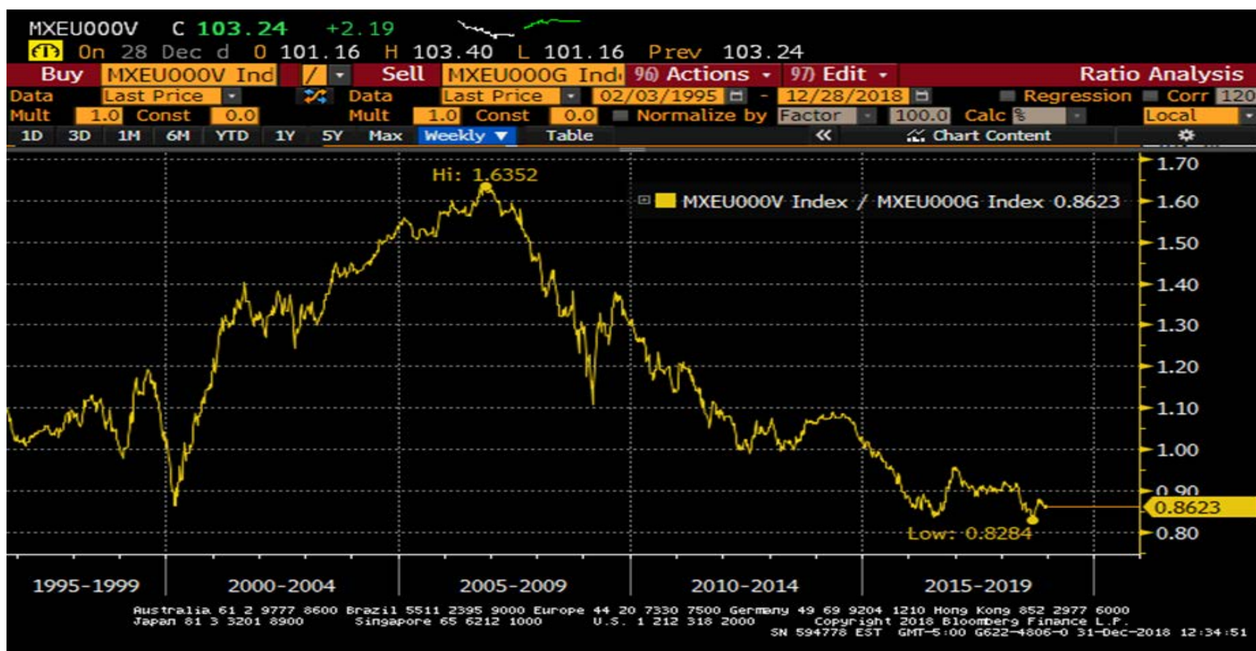
We think the peak of the Dollar in this cycle was in January 2017 which more or less coincided with the "Mighty Dollar" cover story of the Economist magazine which we took as a strong contrary indicator of a peak in the Dollar. We view this year's Dollar strength as a rally in a bear market for the Dollar, following its large decline in 2017. Our view is that the Dollar is overvalued against virtually every other currency in the world on the basis of purchasing power parity. In terms of what might be a likely catalyst for Dollar weakness, we think that the US budget deficit to GDP could rise to above 10%, and possibly the low 'teens in the next recession, given that it is already 6.5% adjusted for loans to the Social Security Fund.

To appreciate the importance of currency to the Dollar-based returns of European equities, it is worth considering the only period of sustained Dollar weakness during the Fund's history. From 2003-2007, the US Dollar Trade-Weighted index fell 25% and the Fund's NAV/share more than tripled, compounding at more than 27%/annum over those 5 years. We are not expecting a similar result over the next 5 years, but we do expect general Dollar weakness over that time period and, if we are right, our Fund should provide pleasing returns relative to most other assets. It will be a pleasant change to have the wind at our back, as we did briefly in 2017.

Interestingly, Dollar strength has historically tended to coincide with periods of US equities outperforming non-US equities, even in local currency terms, and vice versa. The reason for this is that investors tend to flock in one direction or the other and money flows inflate or deflate a country's or region's currency and equity market at the same time. The chart below shows the performance of the MSCI Europe (US$) index relative to the S&P 500 index. Over the past month, there was a sharp rebound in the performance of European equities relative to US equities. Given that European equities are currently selling at as much as half the valuation of US equities, depending on which measure you use, this may be an important turning point.

The return of value?

Our Fund is managed using a value approach, whereby we aim to buy equities at a large discount to our estimate of intrinsic value. For the past 12 years, value stocks underperformed growth stocks in Europe massively. As the chart below of the MSCI Europe Value index relative to the MSCI Europe Growth index shows, value underperformed growth by around 50% from late 2006 to late 2018.



That degree or period of underperformance has never happened before in the history of the MSCI Europe Value and Growth indices. We looked at a chart of value versus growth for the US equity market which goes back 40 years and it shows a similar pattern of value underperforming growth since late 2006 and showing tentative signs of bottoming in September 2018. Empirical studies, most notably by Fama and French at the University of Chicago, show that value historically outperformed growth over the very long-term. But as Keynes once said, in the long run, we are all dead! Value can underperform growth for very long periods as it also did from late 1988 to early 2000, before reversing spectacularly. Most investors eventually gave up on a value investing approach in the late 1990's, instead flocking to overvalued technology stocks and large index constituents – I make that comment as a deliberate comparison with the situation that we find ourselves in today. From its peak in March 1999 to its trough in March 2000 Berkshire Hathaway's share price halved while the tech-heavy NASDAQ more than doubled. It was not the case that Warren Buffett suddenly became stupid. In the following 4 years when value came back into fashion, Berkshire Hathaway's shares returned 125% while the NASDAQ index fell 60%.

In terms of trying to understand the cause of value's underperformance versus growth, and the likely catalyst for a reversal, we think that quantitative easing (QE) and a zero-interest rate policy (ZIRP) are the culprits. QE started in 2008 and the yield on 10 year German bunds plummeted from 4.5% to essentially zero over the next 10 years. The yield on 10 year German bunds was briefly negative for a few months in the summer of 2016, which coincided with one of the twin bottoms for value versus growth in Europe as shown on the chart above. The other bottom in September 2018 closely coincides with Draghi's announcement this summer that QE by the ECB would end on 31st December 2018. Many bright people have said that the end of QE by the ECB spells doom for European equities. We see it as a catalyst for the revival of a value investing approach, particularly in Europe.

Portfolio concentration

In the past couple of years, the Fund's portfolio has become more concentrated as we gained higher conviction in our best investment ideas or we added to the most undervalued investments in the portfolio which also happened in some cases to be the largest holdings. At year end, 56% of the portfolio's assets were invested in the largest 15 holdings, or 63% of the invested portion. We know each of these holdings extremely well and believe that every one of them is selling at a large discount to our estimate of intrinsic value. We are likely to add to our investment in some of these names during the coming year. Even though each of these investments were made on the merits of each company, there are a few broad observations of where they cluster that gives some indication of where we think the best value may lie. The broad areas are: agriculture; financials; natural resources; emerging markets, namely Russia; infrastructure; and family holding companies.

Financials

Banks and insurers remain our largest sector exposure. Interestingly, financials are by far the biggest sector exposure in the MSCI Europe Value index, accounting for over 30% of the index. There, the comparison with the index ends. Only two of our investments in the financial sector are represented in this index, Standard Chartered and NN Group, and between them, they comprise just over 1% of the index.

The holdings remain the same as last year, though their weightings changed a bit with price moves and because we sold 70,000 Sberbank GDRs at $20.25 early in the year and then bought 370,000 GDRs later in the year at an average price of $12.00. We think that Sberbank is one of the highest quality banks in the world. It is a leader in the use of technology in making banking more efficient and generated a return on equity (ROE) of nearly 25% last year. Contrast that with JP Morgan which is generally regarded as the best run US bank that generated half the ROE of Sberbank last year. Both banks have similar leverage with healthy Tier 1 capital ratios of 12% for Sberbank and 13.5% for JP Morgan, soon to be boosted in the case of Sberbank by closing the sale of DenizBank in Turkey to Emirates NBD. We think that Sberbank's plain vanilla banking business in Russia where debt/GDP ratios are a fraction of those in the US is easier to understand than a large global bank like JP Morgan. Last year, Sberbank's share price in rubles (RUB) fell 30% from the price at which we sold part of our holding on 1st February 2018, while its earnings increased by more than 20% during the first 11 months of 2018. As a result, the shares are now valued at less than 5 times 2018 estimated earnings, falling to less than 4.5 times this year's estimated earnings. Sberbank had a dividend payout ratio of 25% in 2016, which increased to 35% in 2017. The consensus is that they will increase the dividend payout ratio to more than 40% for 2018 earnings which would result in a dividend of RUB 16.5/share, or a yield at the year end share price of nearly 9%. The DenizBank sale is due to close in the next few months, and if it does, there is a reasonable chance that the payout ratio might be boosted to 50% in accordance with the government's desire for state-controlled institutions. That would result in Sberbank having a dividend yield of nearly 11%. Russia's withholding tax rate on dividends is only 15% so we are being paid a decent return while we wait for a re-rating of the shares and further earnings growth.

The final part of the case for investing in Sberbank is that the ruble appears to be significantly undervalued. The Big Mac index measures purchasing power parity (PPP) by comparing the price of a Big Mac – a ubiquitous product sold around the world – by converting the local price to US Dollars. According to the Big Mac index, the Russian ruble is currently the most undervalued currency in the world. For 15 years from 2000-2014, the ruble traded in a range of 23-36 to the Dollar and at an average rate of 29. PPP for the ruble based on the Big Mac index is 26 but it currently trades at 69. Russia has not had a current account deficit since 1998 and has run a surplus averaging nearly 7% since the start of 2000. Russia's current account surplus today is running at around 5.5% of GDP. Big currency devaluations happen to countries that run current account deficits with large debt loads or which have high rates of inflation, but none of that applies to Russia. The ultra-low valuation of Sberbank and the ruble seems to be purely a function of Russian sanctions and negative foreign investor perception of Russia. We expect the situation in both respects to improve over time. At year end, the Fund held 1 million Sberbank GDRs worth $11 million or nearly 5% of the Fund's net assets.

The Fund currently has $12 million invested in shares of NN Group whose share price fell by a low single digit percentage while earnings increased by mid-single digits. Lard Friese, the CEO, continued to execute well, wringing out further cost savings from the merger with Delta Lloyd. NN should earn about €3.8/share which is virtually all free cash flow. The P/E is just over 9 and the dividend yield is more than 5%. With NN's solvency ratio again very strong after digesting Delta Lloyd, we expect them to resume returning

most of the free cash flow remaining after paying dividends using share buybacks which would be very accretive to value at the current share price.

Close Brothers, a longstanding investment, is the next largest holding by the Fund in the financial sector with our shareholding worth nearly $10 million. It is a UK merchant bank engaged in niche lending that also owns Winterflood's, the leading UK equities market maker, and a mid-sized UK asset management business. Close Brothers was founded 140 years, but the present business became independent after a management buyout in 1978, followed by it being listed in 1984. Its track record as a public company is superlative. Over 5, 10, 15, 20 and 25 years, it has outperformed the UK FTSE index. The banking division is the principal driver of profits. Close Brothers applies consistent lending standards throughout the cycle, resulting in its loan book growing more slowly in the late stages of economic cycles and more rapidly when other lenders retreat after the typical ensuing bust. Over the past 20 years, Close Brothers generated an average ROE in the high 'teens which puts the big UK high street banks to shame. Close earns a net interest margin of 8% and has a conservative balance sheet with a 13% Tier 1 ratio. They have not cut their dividend in over 30 years and increased the dividend every year since 2010. At the current payout ratio of 45%, the shares yield 4.5%. Last year, its share price essentially moved sideways; we think they remain a very good investment on a P/E of barely over 10.

Standard Chartered is our next largest holding in the financial sector, currently worth nearly $9 million. The bank is a leader in trade finance and banking in Asia, Africa and the Middle East with a long, venerable track record, blemished by poor lending decisions taken under the leadership of Peter Sands from 2007-15. The bank still remains at a relatively early stage of its recovery under the able leadership of Bill Winters. The bank earns nearly two-thirds' of its profits in Asia. We recently urged the bank's Board to consider moving its headquarters to Hong Kong or Singapore on the basis that it could more easily attract Asian business leaders to its Board, reduce the travelling time of its senior executives based in London, and avoid the risk of a potential Corbyn government in the UK who would likely be unfriendly towards the corporate sector. From my travels in Asia, it appears that the bank is doing a lot better throughout the region and they seem to have able bankers in key positions. Last year, earnings likely grew by around 20%, while the share price fell by more than 25%, both measured in Dollars, which now puts the shares on 11 times estimated 2018 earnings. This is the kind of valuation we would expect for a bank that has a pedestrian earnings growth outlook. However, the big earnings gains are likely ahead of us. Standard Chartered is still only generating a ROE of just over 5% and should earn comfortably twice that once the problems have been fixed. In late 2015, Standard Chartered had to boost its capital and had a 2 for 7 rights issue to raise US$5 billion which was dilutive to shareholders. After 3 years of stemming losses and returning to profitability, the bank resumed paying a dividend last year, and there are indications that it may use free cash flow in excess of capital needs to start buying back shares this year. If that happens, it would be accretive to shareholder value.

Vienna Insurance Group (VIG) is our next largest holding in the financial sector, with a shareholding worth just over $6 million. Last year, VIG's share price fell by nearly 25% for no explicable reason. The shares now trade at 9 times estimated 2018 earnings and a nearly 5% dividend yield which we think is far too cheap for the leading insurer in Eastern Europe where insurance penetration remains relatively low.

Hiscox's share price climbed a bit last year, making our holding worth just under $6 million. Like Close Brothers, this is a longstanding investment that has operated profitably in a number of niche insurance markets for many years. They are also successfully building an insurance brand, mainly in the UK and Europe.

We started building one new holding in the financial sector in the middle of last year which is a niche underwriter in retrocessional reinsurance. The management company has an excellent pedigree and we think that we have a good understanding of the business. However, our faith was shaken by large and rising claims long after major events, namely the 2017 and 2018 hurricanes and California wildfires. It is too early to say with certainty whether this was due to bad luck or bad underwriting so we are currently undecided on whether to add to our shareholding in the two closed-end fund vehicles. Nevertheless, they look significantly undervalued at 30-40% discounts to NAV with clear catalysts in place for the discounts to narrow significantly.

<u>Listed private equity</u>

During the year, we roughly halved our exposure to listed private equity. This was partly in reaction to our concerns about rising EV/EBITDA multiples being used to calculate NAVs combined with leverage which are both approaching the peak of the last cycle, alongside debt covenants being loosened. It was also due to two specific situations.

The first was with respect to Ashmore Global Opportunities (AGOL), in which the Fund has a 29% shareholding. AGOL is being liquidated on an orderly basis. During the year, AGOL settled its dispute with their Philippine partner in Bedfordbury which owns a land bank on Manila Bay in the Philippines. Following the settlement, they made a large distribution which resulted in the Fund receiving over $8 million. We have now received distributions covering virtually all our cost bar a few hundred thousand dollars and our remaining holding is worth $8 million. AGOL's largest remaining assets are AEI whose only asset is Jaguar Energy, a power plant in Guatemala, and Microvast, an electric bus manufacturer in China. Each accounts for 25-30% of NAV. The Chinese contractor who built Jaguar has made various claims in Court and there is a final appeal by them to the Court of Appeal in Singapore which will be heard in March. This matter needs to be resolved before the power plant can be sold so a sale is not expected until next year. AGOL's valuation of Microvast was marked up a number of times in the past few years, most recently in August 2018, but in November 2018 it was marked down principally due to lower comparable equity valuations in the sector in China. The plan is for Microvast to have an IPO, but market conditions in China are not conducive so we need to see some improvement there before this holding can be sold at a decent price. Consequently, we don't expect a sale of the Microvast holding until next year. We expect only about 20% of NAV to be returned through distributions this year, most likely from the sale of a stake in ZIM Laboratories which is listed in India and Kulon which owns fully leased warehouses in Russia. Nevertheless, we expect to generate an attractive return from AGOL over the next two years. The NAV/share is more than 30% higher than the share price and we think that NAV is a good estimate for what we are likely to receive in distributions over the next two years or so as AGOL sells its remaining assets.

The second situation that arose last year was that Maurice Tchenio made a tender offer for all the Altamir shares that he did not already own at a premium to the share price at the time, but an 18% discount to NAV. He already owned 30% of Altamir. Maurice co-founded one of the world's leading private equity firms, Apax Partners, more than 40 years ago so this effectively amounted to a large purchase by a well-informed insider with a successful track record. We were faced with a tough choice as to whether to tender our shares. Altamir's NAV performance has been strong, and Maurice's purchase of €220 million in Altamir shares argued in favour of holding our shares. However, the offer price was close to the all-time high for the shares, and the discount to NAV that he offered was a lot lower than the average discount over the past 5 or 10 years. The shares were not that liquid and are likely to become less so after the tender, and we suffer 30% withholding tax on dividends paid by Altamir, so these factors argued in favour of tendering. Balancing all these factors, we decided to tender 300,000 shares and retain just over 200,000 shares which are currently worth about $3 million. The Fund received nearly $6 million which more than recovered the cost of our entire shareholding. During recent market weakness, Altamir's share price discount to NAV has widened to more than 35%. We are considering adding to our holding.

Last year, we sold our longstanding shareholding in Pantheon. Our concerns about private equity in general, and specifically about US equity valuations, led us to sell shares in what we still believe is a very well-managed fund of private equity funds. The Fund received over $8 million in proceeds from selling this investment.

The Fund has investments in the two listed Better Capital funds with about four times as much invested in the 2012 share class (BC12) as the smaller residual 2009 class. During the year, BC12 sold Northern Aerospace for around £60 million to Gardner Aerospace, following which the Fund received a distribution of about $2 million. Jon Moulton who runs Better Capital was regarded until recently as one of the shrewdest private equity investors of the past 30 years in the UK. Jon is determined to revive his reputation by exiting the remaining Better Capital investments at decent prices. He put his money where his mouth is and bought another 19 million BC12 shares for £2.65 million last year, taking his shareholding to 22% of the company. During the year, the Fund bought $3.5 million of BC12 shares at very similar prices to Jon Moulton. We think the shares which are trading at a 50% discount to NAV are very undervalued. During the next 3 years, BC12 is likely to sell its two remaining investments and we think there is a decent probability that they can make distributions over that timeframe of more than double the current share price. We are the third largest shareholder with an 8.5% stake.

The Fund holds a 5% stake in Spice Private Equity that is currently worth just over $6 million. Since the change in strategy, change in management and the Board, and assumption of control by GP Investments Ltd. 2 ½ years ago, the NAV/share of Spice has drifted a bit lower, but this is to be expected given the sale of the legacy portfolio and deployment of proceeds, 80% of which is now invested. On thin volume, Spice's share price fell 20% last year. There is no analytical coverage whatsoever of this listed private equity fund which has made a number of interesting investments. The share price languishes at a 40% discount to NAV. We are in touch with the manager and the Board who expect strong NAV growth from the existing investments. As the largest minority shareholder in Spice, we hope to benefit from expected future growth, failing which we will put pressure on the Board to find a solution to satisfy minority shareholders who were not offered an exit in 2016 on the same terms as Fortress and Newbury.

Family-controlled companies

We have long been attracted to family-controlled companies. Empirical studies show that over long periods, the investment returns of family-controlled firms have exceeded the broad market. Warren Buffett says that they "share our long-term orientation, belief in hard work, and a no-nonsense approach and respect for a strong corporate culture". This is not always the case as minority shareholder abuse is apparent at some family-controlled companies but we can screen for this by looking at the historic behavior of families towards minorities. It is generally a case of "leopards not changing their spots".

Our largest investments in family-controlled companies are: Hansa Trust/Ocean Wilsons ($10 million); Bonheur ($7.5 million); Wilh. Wilhelmsen Holding ($6.5 million); Cofide ($6 million); Danieli ($6 million); Pargesa ($5.5 million); and Sonae ($5.5 million). I have written about each of these in past Chairman's statements so I will only write about any noteworthy developments during the past year.

Both Hansa Trust, in which the Fund has an $8.6 million investment, and its subsidiary, Ocean Wilsons, in which we have a $1.2 million investment, were flat over the year. Hansa's stake in Ocean Wilsons accounts for about a third of its NAV. The core underlying investment in Ocean Wilsons is Wilson Sons, based and listed in Brazil. The investment structure continues to offer multiple layers of discount. Last year, Ocean Wilsons announced that it was investigating strategic options for Wilson Sons including selling parts of the business. In 2017, China Merchant Ports bought a competing Brazilian port container terminal at a reported 14.3x EV/EBITDA. Wilson Sons' shares trade at an estimated 62% discount to intrinsic value if we value its port terminals at this transaction multiple. Ocean Wilson's shares trade at a discount of 21% to NAV using Wilson Sons' share price rather than estimated intrinsic value, and Hansa Trust trades at a nearly 30% discount to stated NAV, and well over a 40% discount if we value Ocean Wilsons at NAV adjusted to value its underlying holding in Wilson Sons at estimated intrinsic value. In November, Hansa Trust announced that it may re-domicile due to political uncertainty in the UK.

One of the main changes at Bonheur was the sale of 49% of two Scottish wind farms to Aviva at valuations far higher than we estimated. Bonheur received £117 million from Aviva in the partial sale. Later in the year, Bonheur bought 51% of Seafox 5, a multi-purpose jack-up ship with a massive crane that is used both for transport and installation of offshore wind turbines and oil and gas decommissioning. The remaining 49% is owned by Keppel Offshore. This adds to the group's two 100%-owned windcarriers: Brave Tern and Bold Tern. The other development was that its controlling stake in the Norwegian-listed Fred Olsen Energy (FOE) collapsed to nearly zero, as has been the case with a number of other leveraged owners of oil rigs. This investment represented less than 10% of net assets a year ago and now represents less than 1% of assets now. In spite of this setback, Bonheur's share price rose slightly during the year. A year ago, we estimated Bonheur's discount to NAV at 64%, and now, even after the small price rise and the wipe-out of FOE, it remains at a massive 61% based on our estimates.

Wilh. Wilhelmsen Holding's was a victim of negative sentiment stemming from Trump's trade war rhetoric as well as weak earnings, largely caused by a tripling in fuel bunker prices over the past two years. Its share price fell 40% in Dollars last year. However, we see many reasons to be positive about the outlook for its key subsidiaries. The supply/demand balance for the car carrier industry is getting tighter and

Clarkson estimates that industry capacity utilization will increase from 89% to 96% over the next two years. The order book for new carriers is depressed and over 10% of the worldwide fleet is more than 20 years old at a time when stricter environmental regulations are coming into force. The shipping of high and heavy equipment generates much higher margins than cars and we believe that both the mining and agricultural cycles are at relatively low points and these industries are the principal drivers of high and heavy volumes. The capex requirements for its largest subsidiary, Wallenius Wilhelmsen, is likely to be low over the next three years with about two-thirds' of planned capex being for maintenance capex and to retrofit ships with clean air scrubbers. This will reduce leverage at Wallenius Wilhelmsen which we think should lead to a re-rating of its shares. The market is unduly negative on Wallenius Wilhelmsen, valuing the company at US$1.45 billion. In a recent report, Swedbank and Kepler Chevreux estimated that the value of its car carriers using Clarkson quotes for ships of that age and capacity and valued the land-based logistics assets at book value and came up with an equity valuation of just over $3 billion for the company. Wilh. Wilhelmsen owns 38% of Wallenius Wilhelmsen. The market is also unduly bearish on Treasure ASA whose only significant asset is a 12.04% shareholding in Hyundia Glovis. At the Treasure share price at year end, Wilh. Wilhelmsen's stake in Treasure was worth $212 million, but the underlying value of the Hyundia Glovis shares was $381 million. Using the Wallenius Wilhelmsen and Treasure share prices to calculate the NAV of Wilh. Wilhelmsen leads us to estimate that its shares are trading at a nearly 50% discount to NAV. However, using the estimated intrinsic value of Wallenius Wilhelmsen and Treasure implies that the discount to NAV is almost 65%. We will likely be adding to this holding opportunistically.

Cofide currently trades at a discount of 39% to NAV. CIR, Cofide's main underlying investment, has been using its large cash position to buy back shares. CIR trades at a 37% discount, so these buy backs are accretive to NAV. In addition, Cofide has started buying back its own shares. CIR now owns 18.9% of its own share capital. Once it reaches 20%, under Borsa Italiana rules, it will have to cancel the Treasury shares. CIR has been looking for potential investments of its cash for a number of years. It has €370mn of cash and cash equivalents, which includes €96mn invested in private equity and hedge funds. KOS, a rehabilitation and nursing home operator in Italy, is CIR's largest investment. KOS has been built up over the past 15 years through acquisitions and organic growth. It now generates revenues of approximately €500mn with an 18% EBITDA margin.

Danieli is the leader in specialized steel plants that allow for flexible production of high quality steel. It also produces special steels. Danieli's special steels division has been performing very well, but despite a high order book for both divisions and a large net cash position, the share price fell slightly during the year on the lower profitability of the plant-making division. Danieli looks significantly undervalued, particularly on an ex-cash basis.

Pargesa is the holding company of the Frere family, Belgium's wealthiest family, and the Desmarais family, one of Canada's wealthiest families. It in turn controls, Groupe Bruxelles Lambert, a listed holding company with stakes in Lafarge, Imerys, SGS, Adidas, Pernod Ricard, Umicore, and a number of other smaller investments. Trading at a more than 35% discount to NAV on a look-through basis, Pargesa is a cheap way of investing in European equities alongside one of its leading business families.

Sonae trades at a 55% discount to the company's own estimate of NAV. It is well placed to benefit from consumer recovery in Portugal. Sonae had planned to IPO its hypermarket business, Sonae Modelo Continente, in 2018. However, the IPO was abandoned due to unfavourable market conditions. The price at which Sonae planned to IPO the division was in line with the current NAV valuation, but a listed business would have given more certainty to the market and likely resulted in the discount to NAV decreasing. Sonae MC continues to perform well, maintaining its market leading position and relatively high margins despite tough competition. The Sports and Fashion retail division is starting to show better results, but this is a much more volatile business than food retail. During the year Sonae increased its holding in Sonae Sierra, a property investment joint venture with the Grosvenor Estate, which has a very strong track record.

We are currently building investments in two Italian family-controlled companies which are high quality businesses but whose share prices are depressed, mainly by negative sentiment towards Italy. One is a company that Camilla visited in the past that we used to own and which we know well, and the other is a new holding that Camilla researched in recent months.

Other large holdings

Yara International has been the Fund's largest investment for most of the Fund's life. We think this is an exceptionally well-managed company that in many respects keeps getting better. Since Yara was listed in 2004, which was when the Fund made its initial investment, its shares have provided shareholders with a compound annual return of more than 17% per annum in US Dollars. The Fund's investment in Yara is currently worth $13.5 million. Although Yara earns a higher proportion of its profits from premium products, its earnings are still very cyclically exposed to the price of urea and ammonia which are the base for nitrogen and blended fertilisers. Over the past 15 years, the urea price fluctuated more or less between $200 and $600 per tonne, averaging about $300 per tonne. The clear driver of urea prices is capacity (supply). Between late 2006 and the summer of 2008, urea prices climbed steadily from $215 per tonne, spiking briefly to over $800 per tonne in August 2008. New capacity was planned during this strong price rise, most of which came on stream in 2008 and 2009. During the financial crisis in 2008 and 2009, urea prices collapsed to around $230 before then recovering to $400-500 per tonne in 2011/12. This led to another large increase in capex by the industry in 2013-16 when capex ran at around 2-3 times depreciation before falling back to where capex equalled depreciation for the past couple of years and is likely to remain so again this year. Prices collapsed as new capacity came on stream, with urea prices averaging $200 in 2016. Since then, prices climbed slowly but steadily to average $220 in 2017 and $250 in 2018. Instead of 2016 being the cyclical low for Yara's earnings, 2018 is likely to prove to be the low in this cycle as European gas prices, one of the key cost inputs, strengthened last year. Yara likely earned about $1.70 per share last year. Consensus estimates are that they will earn about $3.00 per share this year and about $4.00 next year. We think they are likely to earn significantly more given our expectation of a continued tightening of supply, and as the results of cost savings and expansion already done come through to earnings and free cash flow increases. We think that next year, Yara should earn over $5.00 per share if the urea price averages $300 per tonne. At a share price of $38.50 at year end, we think there is ample scope to generate a good return from this investment.

Our Fund is the largest shareholder in Baker Steel Resources (BSRT) with an investment worth $9 million. In last year's Chairman's statement, I wrote about Polar Acquisition Ltd (PAL) which owns the large pre-production Prognoz silver resource in the Far East of Russia. Early last year, Polymetal, a large UK-listed precious metals producer, exercised its option to buy BSRT's stake in PAL. BSRT received shares in Polymetal which now account for about 29% of BSRT's NAV and a royalty, currently accounting for 9% of NAV, that gives BSRT upside based on production and the silver price. Royalty streams command high multiples and it is conceivable that the PAL royalty could be worth a multiple of its current valuation with a bullish silver price. Polymetal, listed in London, whose shares are highly liquid is attractively valued and pays a dividend yield of over 4%. BSRT's next largest investment is a large stake in Bilboes, a gold mine in Zimbabwe, which accounts for 13% of net assets. Bilboes will complete a pre-feasibility study shortly to increase production to 200,000 ounces/annum through open-pit extraction. It is currently valued at about $10/ounce of resources compared to an average of over $100/ounce for listed gold producers operating in West Africa. Their third largest investment is a large stake in Cemos valued at nearly $9 million or 10% of net assets. Cemos' key asset is the Tarfaya project in Morocco containing resources of over 300 million barrels of shale oil. When the oil price collapsed, given the high cost of shale oil extraction, the shale oil processing plan became unfeasible. This project really illustrates BSRT's ingenuity. They persuaded a German cement equipment manufacturer to provide vendor financing for a cement grinding plant at the site. In a second phase, the plant will utilise the hydrocarbons from the oil shale as fuel for the cement process. Given the high and stable cement price in Morocco of around €120/tonne and the low production cost for this plant, it is expected to produce free cash flow of €8 million per annum. The plant is located in a tax-free zone. There is only €4.5 million of vendor financing to be repaid. BSRT owns 26.6% of Cemos so at its carrying value, this valued 100% at $33 million. Cement companies in Morocco trade at mid-teens P/E's so the plan is to list Cemos there once it is in full production, in which case, BSRT's stake could be worth 3-4 times its current carrying value. Futura and Sarmin valued at around $10 million and $4 million respectively and representing 12% and 5% of BSRT's net assets also look likely to bring uplifts in BSRT's NAV per share in the near term. Futura owns two large, high quality coking coal projects in the Bowen Basin in Australia. Most of the infrastructure is already in place. BSRT owns 7.3% of Sarmin which has a world-class potash discovery in the Republic of Congo. The potash deposits there are very rich and thick, making the cost of extraction only about $50/tonne which would make it the lowest cost potash mine in the world. Last year, BSRT's share price fell 8% while its NAV increased about 3%, resulting in the share price discount to NAV widening to 24%. This makes no sense to us given the exchange of the PAL shareholding for highly liquid Polymetal shares and an attractive royalty, combined with low valuations and exciting prospects for BSRT's other large investments.

Gaztransport et Technigaz (GTT) shares performed very well during the year and our holding is now worth over $8 million. Since we first bought GTT shares in September 2016, the shares have generated a total return of 189%. The company received a record number of new orders for its cryogenic containment systems during the year, including an encouraging number of orders for its new business unit, LNG as fuel, as opposed to its core business of LNG storage. LNG demand is continuing to increase, with strong drivers such as China switching power plants from coal to gas. LNG carrier spot charter rates soared in 2018 and support further growth of the LNG carrier fleet. GTT has a very asset light business model, and as a result, very high margins. It trades at 18.5x 2018 estimated earnings, excluding its large net cash position. With

the strong outlook for LNG, and GTT's 80% global market share in cryogenic membranes for LNG shipping and storage, we think GTT remains attractive and offers potential for further growth.

The Fund owns London-listed GDRs in Gazprom Neft, a large Russian exploration, production, refining and marketing company with a value at year end of $7 million. In contrast to many other Russian oil and gas producers, Gazprom Neft is efficiently managed and has good corporate governance. Its 96% ownership by Gazprom is a concern, but Gazprom has historically given its subsidiary much independence and transferred exploration licences to it at cost. Last year, its share price increased, but not nearly as much as earnings estimates for the year which increased from about RUB 50 to over RUB 80. The shares remain very undervalued at just over 4 times earnings. Last year, they paid a dividend of RUB 27. The Russian Government has made it a formal requirement for state-controlled companies to gradually increase their dividend payout ratio to 50%. We think this is likely to happen at Gazprom Neft in the next two years. Based on current earnings and the current share price, this would equate to a dividend yield of almost 12%.

Stable assets, faithful clients, and steady management

The Fund ended the year with net assets of $233 million. Last year, the Fund had $10 million in subscriptions and $23 million in redemptions. This is the fourth consecutive year that the Fund has had net redemptions. This is a function of a few factors. One is that we do no marketing and rely entirely on word of mouth referrals from happy clients. Another is that European equities have been a "hard sell" as a good investment for some time. There were also some specific reasons why some clients redeemed that had nothing to do with any loss of confidence in us or the asset class in which the Fund invests. Virtually all our clients have been with us for more than 12 years. This is very positive as they went through the Global Financial Crisis with us which was a good test of nerves. Most clients have been with us long enough to give them an appreciation for the power of compounding returns. As our clients get older, some of them draw down capital for living expenses, to give to children, or because they become more risk averse, so this pattern of net redemptions of about 5% of net assets does not concern us. There is a benefit to having small net redemptions; given our style of "off piste" investing, there is a limit to how much capital we can put to work sensibly and this is a means of controlling the amount of capital we have to invest. The directors and their wives in aggregate continue to increase their investment in the Fund and now own 14% of the Fund's shares. This has served them and all shareholders well as the Fund handsomely outperformed its benchmark during this period of net redemptions and its NAV per share is 25% higher than it was 4 years ago.

The Fund ended the year with net cash of $25 million as we put capital to work, mainly in the latter part of the year as attractive investment opportunities materialized when equity markets fell.

Camilla co-manages the Fund with me, and is taking on increasing responsibility for "pulling the trigger" on investment decisions. There were no changes to the OAM team during the year but an inordinate amount of our time was spent dealing with an increasingly complex regulatory environment. I think anyone in our industry, not just in Cayman, would say the same.

Outlook

In the current volatile political and market environment, it is easy to paint a bleak picture. Brexit, trade wars, the state of European banks, the end or reduction of quantitative easing, an aging population relying on Ponzi pension arrangements, and social unrest probably top the list of worries. To us, the biggest risk is a sharp fall in the US equity market which is late in the cycle, expensive and over-owned. A steep decline there would almost certainly affect other equity markets globally.

Having stated that caveat, I remain positive on the outlook for our Fund and think that on a 5-10 year view, we are likely to deliver attractive returns to shareholders. A number of factors may finally be moving in our favour as discussed in this letter: currencies, a value investing approach, and a growing realisation that non-US equities are now much more attractively valued than US equities which now account for more than half the value of all equities globally, a statistic shared with Japan in the late 1980's when its stock market and property bubble grew to monstrous proportions.

Desmond Kinch, CFA
Chairman