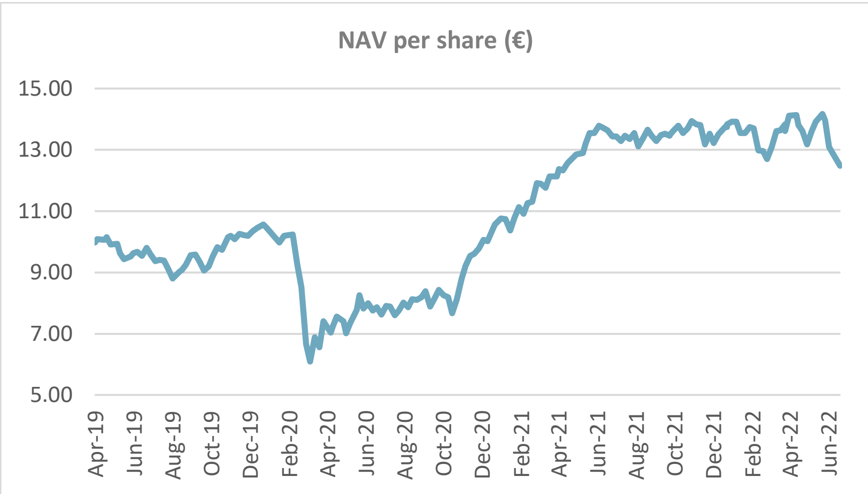
Dear fellow investors and friends,

During the second quarter the fund lost 8.5% gross of fees[1]. We do not have a stated benchmark in our Key Investor Information Document (KIID) and therefore cannot comment on relative performance. We leave it up to you to decide. We note the above number appears slightly better than European and global benchmarks. We ended the quarter with a year-to-date performance of -9.1% (-9.2% on a NAV basis). Inception to quarter end return was 26.6% or 7.6% compounded annual return. Similarly, our last reported NAV at quarter-end was 12.48 (31/03/2022 -8.5% from the closest reported NAV at the first quarter end of 13.64). We are extremely optimistic about our portfolio's prospects and believe we will reach our compound return aspiration over time. Our fund's composition is unlike any index, and we are unlikely to perform in a similar manner.



[1] Our NAV is calculated weekly by FundPartner Solutions, a subsidiary of Pictet & Cie and does not align with monthly or quarterly reporting. The gross return stated is net of taxes and fees but before fund expenses, which are currently running at approximately 10 bps per quarter at current AUM. We project this to decline significantly as AUM grows. Please see our comment on management fees.

The quarter was a tale of two parts: inflation fear followed by recession fear. The fund performed well in the first part, hitting a new high of 14.17 on 2nd June 2022. However, this performance quickly deteriorated in the last three weeks of the quarter. The catalyst appears to have been the very well flagged interest rate rise by the Federal Reserve. Bond prices were highly volatile, and the two and 10-year bond yield curve inverted, often cited as a predictor of a coming recession. Inflation, rising rates and the risk of recession left many short-term investors panicking.

The quarter was a difficult one with almost every asset class and every equity sector falling. Plenty has been said how horrible the first half was for markets. For us, it was only in the last weeks where the smaller capitalization, more cyclical and consumer facing parts of our portfolio declined heavily. We take comfort in the knowledge that we had trimmed most of the positions in the good times and have cash ready to deploy during the bad.

It is easy to get caught up in the negative headlines. Investors tend to overly focus on the short-term. However, it is our belief that having a strong disciplined investment process, which tries to reduce, if not eliminate, behavioral biases is key to long-term performance. Multi-decade lows in consumer sentiment, multi-decade high inflation, war in Ukraine, high commodity prices, looming recession and falling markets briefly summarize market sentiment. Without having a crystal ball, we see these events as temporary in nature. It's frequently said that the solution to high commodity prices is high commodity prices, as they incentivize investment and increased production. Once politicians and "ESG" investors stop interfering, commodity prices will reset lower. Supply chain challenges will work themselves out. Buying when investor and consumer sentiment is low has always been a good strategy.

A likely and long over-due recession may not be entirely bad and hopefully will be mild. Most listed corporations and consumers do not appear to be massively overextended. Banks are well capitalized. The unemployment rate is one of the lowest on record in the United States and parts of Europe with job vacancies still very high. There will of course be bankruptcies and failures, but this is normal. If anything, most of these so far have been in profitless venture capital backed businesses and the crypto-world, heavily skewed towards IT. This might even be beneficial to other parts of the economy experiencing a shortage of IT workers.

Tuning out the noise is important. We prefer to focus on businesses and stick to our long-term investment strategy. This means looking for opportunities through normalized earnings at mid-cycle multiples and focusing on the long-term prospects as a business owner.

We have been highly critical of the major central banks. They were too slow to raise rates in the previous decade, refused to allow healthy, mild recessions or allow any form of stock market correction. These policies meant stoking inequality, bailing out speculators and fueling valuation bubbles. Covid was a catalyst that drove yet more extreme stimulus. Central banks tried to fix problems over which they had little control with ever more liquidity: global supply chain issues and anemic demand in some sectors due to governmental restrictions. This, coupled with government stimulus stoked inflation not only in asset markets but also the real economy. Central banks were far, far too late in realizing inflation was a growing threat and seemed willing to let rampant speculation run wild as well as pushing a supply-constricted housing market to the sky. Central bankers have now managed to prick some parts of the bubble in overpriced tech, profitless hope and dream stocks and nonsensical crypto and meme stocks. However, we think, there is still more to go as valuations should continue to fall in venture capital and private equity as well as private credit markets.

Central banks now have a delicate balancing act. After failing to prevent inflation and in fact stoking it, then blindly claiming it was transitory, they must now show they are capable of reigning it in without causing a depression. Since a fair portion of the inflation is caused by structural underinvestment in commodities and housing, it is likely a tall task. Another conundrum and tail-risk is that central banks likely cannot raise interest rates too far due to massive government debt. Debt servicing costs could easily swallow whole budgets in many countries if raised to normal levels. Stable currencies and low inflation are the bedrock of economic growth and prosperity, and this could be challenged in such a scenario. Do they simply inflate the debt away lowering everyone's prosperity or do they force governments to behave more fiscally responsible?

Despite these risks of a recession and currency debasement, we are bullish and excited. We think the next couple of quarters will provide us with ample investment opportunities in high-quality companies trading at low multiples to cash flows. We can see the basis for future fund outperformance in the years ahead from these opportunities. We strongly believe that humans eventually overcome short-term challenges and well-run business trading significantly below their intrinsic value remain the best place to invest to preserve purchasing power and grow it over time. We have over 100% estimated upside to our portfolio, and we remain confident that a mid-teens compound annual return is possible in this environment. The road will likely be very bumpy as volatility may remain elevated and losses in other areas of the market could lead to indiscriminate selling as seen in the past quarter. But we believe this will likely be temporary and we take comfort in our long-term view that our research and analysis will ultimately bear fruit. Good things happen to strong companies that produce lots of cash. Thus, we think now is a great time to increase investment in the fund and are doing so ourselves.

During the quarter we added one new position and received shares of Spur Corporation after Grand Parade unbundled its stake and spun it out to shareholders. Spur Corporation shares were subsequently sold during the quarter. We trimmed positions that benefit from the current crisis and added to those we felt were indiscriminately sold.

At quarter-end our portfolio had 134% upside to our estimated NAV and was trading at a weighted average P/E of 7x, FCF/EV yield of 18% and a return on tangible capital of 32%.

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Contributors		Detractors	
Motor Oil Hellas	+58 bps	IHeartMedia	-171 bps
Ringmetall AG	+44 bps	International Game Technology	-79 bps
OCI NV	+30 bps	Boa Vista Serviços	-75 bps
Verallia	+24 bps	RHI Magnesita	-73 bps
DNO	+19 bps	Esprinet	-67 bps

The largest contributor during the quarter was Motor Oil Hellas, a company which owns an Eastern Mediterranean complex refinery, which we will introduce later in this letter. The stock increased by 26% contributing 58 basis points to the fund. The company is benefiting from an upswing in the refining cycle and can capture abnormal profits due to its high refining complexity and feedstock flexibility as well as an expanding renewables portfolio.

The second largest contributor was Ringmetall, which we introduced in our third quarter 2021 letter. The stock contributed 44 basis points after reporting a record first quarter for both sales and operating profits. Against significantly increased raw material prices, the company managed to defend margins. Management reiterated the full-year guidance and continues executing their strategy.

The third contributor was OCI NV, the Dutch nitrogen fertilizer and methanol producer, which we introduced in our second quarter 2019 letter and further updated in our fourth quarter 2021 letter. OCI added 30 basis points to the fund after reporting record first quarter earnings and announcing the payment of a €1.45 dividend for the second half of 2021. The second quarter will likely be their best on record and after quarter end they announced that the dividend in relation to the first half of 2022 will be €3.55 per share. We expect nitrogen fertilizer fundamentals to remain strong.

The fourth largest contributor was Verallia, a leading glass packaging manufacturer, which we will introduce later in this letter. The stock increased by 10% contributing 24 basis points to the fund and paid a dividend of €1.05 per share. Verallia operates in an oligopolistic glass bottling market that provides some pricing power which in combination with energy hedges delivered strong operating results in the first quarter. We believe they will continue to operationally perform well despite high natural gas prices.

The fifth largest contributor was DNO, a Norwegian listed oil and gas company, which contributed 14 basis points during the quarter. The company continues to benefit from high oil prices and low-cost production. This year should be one of record cash flow, generating almost half of its market capitalization in cash. Even in normalized market conditions, DNO remains a compelling story at a very attractive valuation.

The top detractor was iHeartMedia, the American Radio and Podcasting company. The share price decreased by 23% losing 171 basis points for the fund. It began with slightly higher expenses in the first quarter, which management said was based on increasing marketing expenses to support stronger sales plus bonuses for the prior year. The shares continued to sell off during the quarter as analysts began to forecast a severe recession in the radio advertising business. We believe an extremely negative future is currently priced into the stock and we are sanguine holders. Global Media & Entertainment, controlled by British radio-baron Ashley Tabor-King, who first reported a stake in February 2021 at $12.21 per share, further increased his stake to 14.99% at prices between $12.46 and $18.79 per share (compared to quarter end price of $7.89 per share) after receiving permission from the Federal Trade Commission. Ultimately a bid could materialize. Management has also purchased shares in the last twelve months in multiple transactions that range between $11.95 and $22.45 per share.

The second largest detractor was International Game Technology, a world leading operator of lotteries, which we introduced in our first quarter 2020 letter. The share price decreased by 23% losing 79 basis points for the fund. While the first quarter's earnings were in line with expectations and guidance was maintained, we can only speculate the stock fell during the quarter because some market participants do not like that it is 3.5x levered in an increasing interest rate environment with recession potential. The business model requires large upfront payments to win contracts which last many years, so using some debt makes sense to us. The debt has long maturities, fixed interest and is being supported by a very stable lottery business. They will also receive over $700 million in the third quarter from the sale of their payments business and the remaining payment for their Italian consumer business, which they sold last year. Despite a strong dollar, we expect a good year, further deleveraging, dividends, and an increasing share buyback program.

The third detractor was Boa Vista Servicos, the second largest Brazilian consumer and commercial credit bureau and analytics provider, which we introduced on our first quarter 2022 letter. The share price retraced the gains of the first quarter without any deterioration of the fundamentals of the company. Boa Vista grew top line revenue by 26% year-on-year, expanded margins and generated record levels of cash flow. The key driver for the business is credit seeking, which is less impacted by a potential downturn than actual credit granting. Moreover, the commodity-heavy Brazilian economy should perform decently in an inflationary environment.

The fourth detractor was RHI Magnesita, the Austrian-Brazilian refractories company, which we introduced in our second quarter 2019 letter. It lost 73 basis points during the quarter after falling 18%. Volumes are holding up, orders remain healthy, and the company has been increasing prices. While net debt was elevated mainly due to increased working capital spending, it should normalize over the coming quarters.

The fifth detractor was Esprinet, the Italian electronics distributor, which we introduced in our fourth quarter 2019 letter. Esprinet is the largest distributor of business to business IT products and consumer electronics in Italy and Spain. After strong, Covid-ignited demand we expect a normalization, particularly in the consumer segment. Overall demand remains above pre-Covid levels despite a slowdown in consumer electronics and declining consumer confidence. The commercial (B2B) segment has been performing well and will likely fair better. Guidance still points to an increase in earnings year over year, though the market apparently is pricing in a severe recession. We do not see any signs of intrinsic value impairment and remain confident holding at a very attractive valuation using through the cycle mid-term cash earnings.

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Verallia SAS (VRLA FP)

High European natural gas prices led to a sell-off in European gas consuming companies' share prices. This provided an opportunity to buy shares in the glass producer Verallia at what we believe to be a highly attractive price. Our thesis is simple, the company has pricing power and demand should remain relatively strong, baring a deep recession. In the mid-term, European natural gas prices will likely be lower and alternative fuels will be used in the industry.

Verallia is the leading European and third largest global producer of glass bottles and jars. Global leaders include Owen Illinois and Ardagh Glass Packaging with a fourth European regional player, Spain's Vidrala, rounding out the major players who control around 70% of the European market. Verallia produces and sells 16 billion bottles and jars a year for beer (13% of sales), soft drinks (12%), spirits (11%), still (35%) and sparkling (11%) wine and bottles and jars to the food industry (18%). Their largest region is Southern and Western Europe (69% of sales) with 20 glass production sites, 35 furnaces and seven cullet/recycling facilities. This is followed by Northern and Eastern Europe (22% of sales) with seven production sites and 17 furnaces and Latin America (9% of sales) with five production sites and six furnaces.

The glass bottle industry has relatively high barriers to entry primarily based on high switching costs and economies of scale. Customers range from highly concentrated beer and spirits companies to highly fragmented wine companies with food and soft drinks in the middle. Typically, a glass producer will enter a new location to support local beer, wine, or spirits production after securing a long-term contact for at least half of the production capacity. Once a plant is built, it is highly unlikely rivals will build nearby as they require long runs and high-capacity utilization to be profitable. Building a plant speculatively near an existing plant almost ensures both plants become loss-making. Likewise, plants built far from customers find it difficult to enter the local market as the high cost of shipping heavy, empty bottles from hundreds of kilometers away negates almost any benefit. Glass bottles are also a small fraction of the finished product, so producers have little incentive to import from further afield unless the savings are meaningful, which is unusual. The highly concentrated market is disciplined and only adds new capacity slowly when demand is sufficient.

Likewise, customers cannot easily switch to alternatives. Their bottling lines are built for certain bottles – size and shape. The bottle itself is often part of the brand. Consumers would be highly unlikely to buy spirits and wine from plastic, cartons or even aluminum cans. Beer is a bit easier for customer perception but still almost 70% of European beer is put into glass bottles as customers perceive this to be higher quality and local governments have bottle recycling schemes. According to Verallia's Capital Markets Day, end consumers prefer glass and want to use more of it. This is due to the perception that glass is fully recyclable (unlimited times), more likely to be recycled, and better at preventing food contamination. The move towards premiumization of both spirits and beer has further added to glass bottles long-term growth.

The key risks are energy and environmental concerns. The opportunity to invest at a very reasonable price arises from spiked European gas prices, which were high already but additionally exacerbated by the Russian invasion of Ukraine. Supply disruptions are a clear risk. We look at this from a couple of different angles. First, they have hedges in place for 2022 and part of 2023 so they are less affected in the short-term baring a gas cutoff. Other players are only partially hedged and are having to aggressively raise prices to cover costs. Verallia is therefore able to increase prices to customers, but for them it is margin accretive. This of course is temporary but also demonstrates the pricing power of the industry. We have spoken to several clients and while unhappy with higher input prices, they understand the reason for input price inflation and have little alternative but to accept the price rises. There might be a tipping point but so far it has not been seen. Second, the industry is seen as important, so even if gas is rationed, they will likely get a decent sized quota. The French Finance minister even recently said that the country must make plans to curtail energy usage on a case-by-case basis to ensure that businesses such as glass makers are spared from irreversible damage[2]. Even before this year they were looking for alternatives and were increasing the use of alternative energy, such as having started a biogas pilot project. We expect there will be an acceleration of alternative energy sourcing. France, Spain and Italy (69% of sales) are less dependent on Russian gas than other parts of Europe. There are pipelines from North Africa and the UK plus Italy is working on import terminals for LNG. While the near-term outlook for European energy prices looks poor and we fully expect a bad winter ahead, we see a silver lining to the current energy crisis. As with the 1973 oil crisis, generational impacts are likely. Longer-term Europe will look to increase energy security by weaning itself off Russian gas through a combination of more LNG import terminals, increased share of alternative fuels and renewables generation.

On a normalized basis the stock trades at close to a 14% free cash flow yield with a return on capital employed in mid to high twenties, which we find attractive.

Motor Oil (Hellas) Corinth Refineries SA (MOH GA)

The market perception is that Motor Oil is a dirty commodity business in a dying industry and the shares reflect these low expectations. We believe that Motor Oil is a leading regional refinery that will remain relevant for many years and is undergoing significant change as it redeploys strong cashflows in high return projects as they diversify into renewables. There has been significant underinvestment and closures in the refining industry. Aided by Western sanctions on Russian products this is leading to a new refining upcycle. Motor Oil is benefiting from improved refining margins now, while pivoting to renewables by completing a major transaction in wind and solar for future growth.

[2] Bloomberg

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Today, Motor Oil is Greece's largest refinery and plays a leading role in crude oil refining and marketing of petroleum products in the greater Eastern Mediterranean region. The Vardinoyannis family has controlled the company since establishment in 1970 and today owns 46% of company while the rest is free float on the Athens stock exchange. The refinery, with its ancillary plants and fuel distribution facilities forms the largest privately owned industrial complex in Greece and is considered one of the most modern refineries in Europe.

Refining is the main operating activity of the Motor Oil group with processing capacity of 185 thousand barrels of crude oil per day and storing capacity of 2.6 million cubic meters. The refinery can process various types of crude oil and produces a wide range of oil products, which are mainly sold abroad. Feedstock sourcing flexibility and the wide range of end-product capabilities are the main drivers of complex refining configurations. Motor Oil has a high refining complexity of 11.5 on the Nelson Complexity Index, which is expected to increase to 12 after the new naphtha unit commences operations in the fourth quarter of 2022. For comparison Hellenic Petroleum has 9.5, Tupras 9.8 and Neste 10.5 [3]. The refinery is also equipped with a power and steam cogeneration unit with 85 megawatt (MW) capacity and is energy self-sufficient. It uses natural gas as a fuel, but has flexibility to burn naphtha and other alternative fuels. The strategic location of the Corinth company-owned port facility provides a significant seaborne trading advantage.

Motor Oil has a significant presence in fuels marketing through an extended retail network of petrol stations under the Avin and Coral (Shell licensee) brands. Avin Oil, is one of the leading distributors of oil products in Greece through its 640 branded petrol stations. The company is also active in industrial and commercial sectors such as aviation, marine and chemicals. Coral, under the Shell trademark, has 800 petrol stations in Greece with expanded operations in Cyprus, Serbia, Croatia, Montenegro, Albania and North Macedonia. Avin and Coral combined account roughly for a quarter of the petrol station market. Despite low margins, the Fuel Marketing segment has been consistently profitable.

Motor Oil Renewables was founded in 2008 and since then it has developed and acquired a portfolio of 280 MW of wind and solar projects in full operation, 84 MW under construction and 650 MW in various licencing stages. In May 2022, Motor Oil announced an agreement with Dutch Reggeborgh, Ellaktor's Group largest shareholder, to acquire

[3] Company data, Goldman Sachs Global Investment Research

a 75% stake in Ellaktor's renewable energy portfolio. Following this transaction, Motor Oil will increase its renewables portfolio by 493 MW operating and 1.6GW projects under development. The deal makes Motor Oil the number one in installed wind capacity and number two in overall installed renewable energy capacity in Greece. The acquisition supports the Group's transition to cleaner forms of energy and should lead to less cyclical earnings and higher valuation multiples.

The Group is also the fourth largest independent electricity provider in Greece with a market share of 4.5%. Other activities include production and marketing of lubricants and distribution of Liquefied Petroleum Gas (LPG) for domestic and professional use.

High refining complexity and a strategic location allows the company to optimise sourcing of crude oil and benefit from discounted spreads to Brent Oil. Energy sourcing flexibility, such as switching to naphtha and other alternatives, limits to some extent the dependency on a single energy source, which may be beneficial in the current environment. Lastly, the growing renewables portfolio adds higher-margin, contracted revenues and supports management's sustainability targets.

On a normalised basis, Motor Oil trades at 20% free cash flow yield

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As stated in our previous letter, we are currently not charging a management fee until the fund reaches a larger size. The founder's class management fee will then be only 1% of assets under management.

Our focus is and remains the portfolio, but we do need to grow our assets to a sustainable level. Our fund can be invested through both European international central securities depositories: Euroclear and its FundSettle clearing platform and Clearstream through the Vestima fund clearing platform. Our fund is registered for distribution in the UK, Spain and Luxembourg including for retail distribution.

Currently the following financial institutions in Spain are distributors: BBVA, Renta 4, Lombard Odier, Banco Alcala as well as many other institutions working through the main platforms in which the fund is available upon request: Allfunds Bank and Inversis.
In the UK we are offered on the AJ Bell low-cost platform youinvest.co.uk and can be part of an ISA or pension.

Our fund is also available on SwissQuote swissquote.com where almost any nationality (ex-USA) can open an account without local Swiss taxes being an issue.

If you have any issues finding our fund or you wish to get more information about us and our process, please contact us at IR@palmharbourcapital.com

Our fund is being offered as part of a Spanish pension value-orientated fund of funds. If interested in investing in a Spanish pension scheme, please contact us.

We thank you for your ongoing support. We continue to believe this is a great time to be a value investor and are very excited about the medium-term prospects for the current portfolio.

Yours faithfully,

Palm Harbour Capital

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