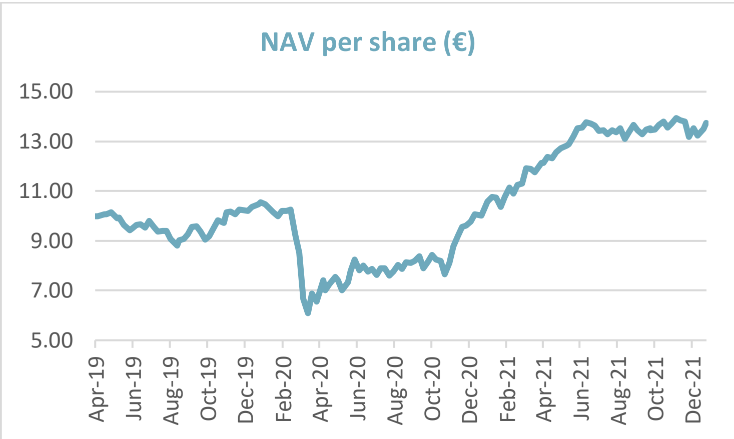
PALM HARBOUR
CAPITAL

Dear fellow investors and friends,

During the fourth quarter the fund gained 2.26% 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 somewhat below European and global benchmarks. We ended the quarter with a year-to-date performance of 36.5% (+37.65% on a NAV basis). Inception to quarter end return was 39.3% or 12.9% compounded annual return. Similarly, our last reported NAV at quarter-end was 13.75 (30/12/2021 +2.23%% from the closest reported NAV at third quarter end of 13.45). 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.



The fourth quarter feels like it might have been a tipping point. We won't know until much further into the future, but it certainly feels there was a bit of an awakening. Central

[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 mgmt. fees.

banks now admit that there is indeed inflation and it's probably not entirely transitory. We thought this was painfully obvious to anyone that buys food, fuel, entertainment, property, or stocks or pays rent, even if not to central bankers and economists. We are still very much in the early innings of righting the disastrous effects of negative real interest rates. It will be painful to reallocate money to labor, savers, and productive businesses and away from speculators, fraudsters and zombie companies, and we hope there is enough political and central bank willpower to do so.

The second significant event was of course Omicron, which temporarily hurt the market. We are most definitely not virologists, but we have been optimistic that humanity will overcome the pandemic. Everything we have read, even early in the latest outbreak was that Omicron was apt to have a substantially lower health impact than previous strains. and potentially provide protection from more damaging strains, future and present. Herd immunity it seems, might be closer than imagined. Government responses have differed, with some reducing restrictions whilst others cling to repressive policies.

These two events have started to take some of the air out of the bubble. Many of the highflyers of 2020 and early 2021 are slowly deflating from nose-bleed heights with many down 50-80% from their highs. Retail speculation seems to be waning as many see the real winners to be CEOs and stock promoters and not the novice ~~investor~~ gambler. There has been widespread selling by insiders in the most overvalued parts of the market. The market breadth of expensive growth stocks has become ever narrower – the US 10-year yield is not even two percent and German bunds are just now flirting with zero. We see some rhyming to 2000[2].

We believe our portfolio to be well positioned in this environment. While our companies have been out of favor for some time now, they have nevertheless produced strong cash flows, providing them many options for the future. We believe the best way to preserve wealth in an inflationary environment is by owning high-quality companies with pricing power, advantaged commodity players and hard assets. We believe buying these types of companies coupled with strong cash flows and high return reinvestment profiles bought at a significant discount to their intrinsic value will ultimately produce strong REAL returns. We believe the real economy is still in fairly good shape. There are perhaps a few exceptional areas and there are many cycles at play at the moment that are partly disconnected due to underinvestment. This bodes very well for our value

[2] Musk and Bezos Lead the Charge of US Billionaires Selling Shares , SEC Proposes Crackdown on Executives' Well-Timed Stock Sales , 'Insider sales' among companies held by flagship Ark fund pick up

stocks and we strongly believe that our portfolio should do very well in time. We have over 100% upside to our portfolio and we think a mid-teens compound annual return is possible in this environment. The road will be very bumpy as volatility will likely increase and losses in other areas of the market could lead to indiscriminate selling. We believe this would likely be temporary. We take comfort in our long-term view and on our research and analysis and believe ultimately our investment will bear fruit. Good things happen to strong companies that produce lots of cash.

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Contributors		Detractors	
C. Uyemura	+134 bps	Undisclosed Brazilian Co	-148 bps
International Game Technology	+78 bps	Undisclosed Hong Kong Co	-101 bps
OVS SpA	+49 bps	OCI NV	-63 bps
Avid Technologies	+44 bps	iHeartMedia	-35 bps
Ringmetall	+40 bps	Euro Cash	-25 bps

The largest contributor during the quarter was C Uyemura, the Japanese specialty chemicals producer, which we introduced in our second quarter 2021 letter. Uyemura added 134 basis points to the fund after ending the quarter up 34.8%. The company issued a first half trading statement (year end March), which significantly upgraded guidance for the year after a stellar first half. After the first quarter we could already tell that their half year guidance provided in May, already halfway through the first quarter, made no sense. The implied guidance called for a 30% drop in sales and operating profit during the second quarter. After reviewing the results and commentary for peers and customers we thought this to be absurd. Therefore, it was no surprise to us when the first half year results came out beating their guidance by 28.5% on sales and 60% on the profit level. They then proceeded to upgrade the full year guidance by 18% at the sales level and 43% at the net profit level. We believe they will similarly beat their full year guidance and will raise their three-year expectation (also provided last May) as continued strong demand for electronics drives demand for their highly specialized chemicals.

The second largest contributor was International Game Technology, the Italian-American lottery and slot machine company, which we introduced in our first quarter 2020 letter and which contributed 78 basis points to performance. Early in the quarter, IGT's main competitor, the highly levered Scientific Games, entered into a definitive agreement to sell its lottery business to Brookfield Business Partners for total consideration of $6.1 billion in cash and contingent payout. At $471 million last twelve months EBITDA (admittedly COVID affected, excluding unallocated central costs), Scientific Games lottery business was sold at trailing 13.0x. Scientific Games exited lottery business to optimize the portfolio and aggressively de-lever its balance sheet. We believe IGT's lottery business to be much higher quality and certainly larger. If we were to use a similar metric for IGT, *including all corporate costs but excluding Gaming and Digital and Betting*, we would have around 90% upside. We are willing to bet the Gaming and fast growing Digital and Betting segments are worth something as well. It seems the sell-side willfully ignores this transaction and sticks with their 7-8x EV/EBITDA valuation.

The company reported third quarter earnings with sales up by 21% year on year, EBIT up by 144% and leverage down to 3.8x from 6.4x at year-end 2020. Total Adjusted EBITDA improved by 42% with margin gaining 618 basis points. Following the recovery, management reinstated the dividend of $0.20 per share.

Ahead of their Capital Markets Day the company released mid-term guidance of mid-single digit sales growth, over 500 basis point operating margin improvement leading to for $2.4 billion cumulative free cash flow over the next four years which will put leverage at a range of 2.5-3.5x over the cycle. If we take this $600 million and compare to its year-end $5.9 billion market capitalization it equates to a 10% free cash flow yield. Furthermore, they announced their first ever share buyback of $300 million (10% of the free float).

The capital markets day provided a dynamic plan of $3 billion investments until 2025 that include $1.6 billion in capital expenditures and $1.2 billion in R&D for content development. Management also announced the creation of a separate legal entity for the Digital & Betting business and the possibility of an independent listing to support value recognition.

The third largest contributor was OVS, the Italian fashion retailer, which we introduced in our previous letter. The shares contributed 49 basis points during the quarter. The company continued to significantly outperform the market, increasing market share to 9.3% from 9.0% in the previous quarter. Moreover, reported EBITDA for the nine months of 2021 not only surpassed the nine months of 2020 but also that of 2019. Cash generation continued to be strong with leverage reaching 2.0x target one quarter ahead of their target and down significantly from its peak of 5.5x in January 2021. Management subsequently raised Sales, EBITDA and Cash Generation guidance and now expects €100-110 million free cash flow compared to €65-80 million previously. Leverage for year-end is expected to be lower at 1.4-1.6x. Finally, in November OVS announced the acquisition of all 11 GAP stores in Italy strengthening their relationship. The agreement follows the ongoing franchise partnership, established in early 2020, with OVS already offering Gap Kids in its stores and Gap Adult and Kids on its e-commerce site.

The fourth largest contributor was Avid Technologies, the American visual and audio software company, which we introduced in our fourth quarter 2020 letter. The position contributed 44 basis points during the quarter following a 56.4% year on year subscription revenue increase and improving retention rate. Management expects a strong fourth quarter which will give momentum for 2022. The board authorized a $115 million buyback. Meanwhile, streaming wars drive media groups to spend more than $100 billion on new content to attract or retain customers[3]. Such a trend makes us feel confident about AVID's prospects.

The fifth largest contributor was Ringmetall, the German clamping ring manufacturer, which was introduced in our third quarter 2021 letter. The company contributed 40 basis points driven by 40.6% and 116.3% year on year revenue and EBITDA increase respectively. High sustainable pricing and a high level of production efficiency aided revenue's development. Higher raw material prices were quickly passed along further strengthening the bottom line. The outlook remains favorable.

The top detractor was an undisclosed Brazilian company, and the second largest decorator was an undisclosed Hong Kong position. We are actively involved in both positions and will update you when we feel it is appropriate.

The third detractor was OCI NV, which lost 63 basis points. We first wrote about OCI in our second quarter 2019 letter. We will update on the position later in this letter. The company had a stellar third quarter, successfully IPO'd its Middle Eastern fertilizer business, and sold a minority stake in its methanol business – highlighting its value. Nitrogen fertilizer and methanol prices maintained very high pricing levels underscored by robust global demand. We believe healthy farmer incomes and agricultural commodity prices will support fertilizer pricing through the upcoming planting seasons and beyond in 2022.

The fourth detractor was iHeartMedia, the American Radio and Podcasting company. The company reported 25% year on year revenue increase exceeding prior guidance of 20%. The Podcasting revenue increased from $22.6 million to $64.2 million year over year (+183.7%). Adjusted EBITDA reached $230 million up 42% year over year with margins increasing by 400 basis points. Management positively guided for year-end

[3] Streaming wars drive media groups to spend more than $100bn on new content

with expectations to reach 2019 performance. Subsequently the CEO and CFO both purchased shares. Lastly, the FTC gave permission for Global Media & Entertainment Investments, the largest radio owner in Europe, to increase their stake in the company up to 14.99% from 8.7%.

At quarter-end, our portfolio had 107% upside to NAV, a weighted average P/E of 11x, FCF/EV yield of 15% and a return on tangible capital of 28%.

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OCI NV (OCI NA)

We introduced OCI NV in our first letter which was for the second quarter of 2019. We think everything we wrote at the time remains highly relevant. Well, two and half years later the shares are only modestly higher, hurting overall fund performance (and having traded as much as 50% lower during much of 2020) and yet it remains one of our fund's largest positions. Let's review some of the pertinent points.

- Demand for Methanol and ammonia, both used in industrial processes, began to weaken in late 2019, this was of course exacerbated by Covid-19 in 2020 and led to a plunge in prices., not helped by the major feedstock natural gas price collapsing. Despite this and significant plant turnarounds, EBITDA in the methanol business was 40% higher in 2020 than in 2019. This was due to a disciplined market, which took out capacity and shutout high-cost players. Industrial demand came roaring back quickly. Natural gas and oil also recovered and even went far higher than pre-COVID levels. This has led to 2021 EBITDA *in only the first three quarters* to be over 100% higher than all of 2020 as prices improved drastically.
- Demand for urea and other nitrogen-based fertilizers were little impacted by COVID, however natural gas and coal prices fluctuated with lower prices early in 2020 pushing prices to multiyear lows. More importantly for OCI, a flood of cheap LNG into Europe, for a very short period flipped global cost curves as their fixed priced North African and Middle East contracts temporarily hurt them. This of course reversed quickly and now prices have skyrocketed around the globe but particularly in Asia and Europe. Higher gas prices have propelled nitrogen fertilizer prices dramatically (think $226/ton in the second quarter of 2020 to as high as $1000 in the fourth quarter of 2021). Nitrogen fertilizer EBITDA is some 60% higher *in only the first three quarters* of 2021 versus 2020. China and Russia have put export quotas on some fertilizers as they seek to protect local farmers. China's coal prices have also soared higher as not only environmental

issues but also their political relationship with Australia and Indonesian shortages affects coal prices and puts their consolidating coal to urea producers out of action in the global markets.

- Not only did COVID affect energy markets in strange ways, but it has also delayed projects so additional capacity is limited and transport costs have also put a premium on local supplies.
- Another factor buoying the market is corn prices (and other agricultural products that require nitrogen). Corn ended its decade long bear market and is up over 100% from the lows in 2020. This is due to lower plantings in the US, drought in Brazil, globally low inventories, strong Chinese demand due to African Swine Fever having killed off their pig herds, which they now need to be rebuilt as well as strong demand for ethanol. This has fattened farmer pockets and enabled them to buy more fertilizers to seek better yields.
- Another potential source of growth for both ammonia (the precursor to urea) and methanol is the greenification of the energy market. Both have been touted as potential candidates to replace bunker fuel in the maritime industry and act as a carrier for green hydrogen for other energy uses. This is in the early stages of development but could potentially add another leg to the supply/demand story.
- The past four quarters of high product prices and strong production has led to significant cash flows. The company has done several deals (as we alluded to in our original write up), which are leading to significant cash-ins. This in turn is leading to a significantly stronger balance sheet. The company had above 5x net debt to trailing EBITDA in late 2019 and early 2020 with around $5 billion of gross debt. This is now drastically different as EBITDA has soared and gross debt has plunged. At the end of the third quarter this metric was at only 1.7x with gross debt of about $3.8 billion. it is likely to be even lower come the end of the year as the recent deals bring in significant cash. This is especially the case when we look at the holding company level.

When we first wrote about OCI we mentioned a JV they had formed with ADNOC combining their North African assets with ADNOC's Abu Dhabi plants. This company has subsequently refinanced itself allowing for a special dividend of about $1.2 billion, of which 58% or $675 million goes to OCI holding company. The partners then listed Fertiglobe on the Abu Dhabi stock exchange leading to IPO proceeds for OCI's 8% stake sold of $461 million. Now as OCI consolidates Fertiglobe, the net debt picture is not changed by levering Fertiglobe. However, if we strip Fertigloble out and take the consolidated net debt of OCI at the end of the third quarter and subtract Fertigloble's adjusted net debt post transaction of around $1.1 billion and then subtract the IPO proceeds we get less than $750 dollars of net debt at the Holdco and keeping Fertigloble separate, an equity value of their 50% stake of roughly $4 billion (compared to OCI's equity market cap of $5.5 billion at year-end).

When we first wrote we also mentioned Saudi interest in the methanol business. This deal unfortunately never happened as it was rumored at a very attractive price for the full business. However, recently OCI sold a 15% stake in the business to ADQ and Alpha Dhabi Holdings for $375 million implying a price of $2.5 billion for the whole business (6.8x trailing EV/EBITDA). This is another $375 million cash in at the Holdco level reducing net debt further to less than $400 million.

Given that we have a market price value for Fertiglobe, which looks reasonable based on peers, cash flows and EV per ton of ammonia equivalent capacity, the recent transaction in the methanol business, and reasonable EBITDA and cash flow multiples on the US and European nitrogen businesses, we can put together a sum-of-the parts. We come up with a very conservative 60% upside. Just take equity values, with Fertiglobe's 50% stake at $4 billion and the remaining Methanol at $2.1 billion, that leaves the US and European nitrogen businesses with an implied negative $650 million value despite minimal debt. Just looking at CF Industries and Yara we find a negative equity value a bit unreasonable. The US plant cost over $4 billion to build and is situated in a highly desirable location.

Another way to look at it is on a pure cash flow basis. Let's look at 2023 and 2024 when prices come back to earth. We reckon they can still do $700 million of free cash flow, after minorities. On a $5.5 billion market cap that is a 12.7% yield. Given the holding company will be net cash sometime in 2022 (ignoring any potential dividend payments) we think most of that can be paid out to shareholders. This could easily imply a stock price 100% higher.

OCI is still an advantaged commodity player. Yes, there are risks and in the short-term many things can happen as COVID has demonstrated but we think on a normalized basis the stock should trade between 50-100% higher. Given the owner and his track record, we are sure this value will eventually be realized.

Great Eagle Holdings Limited (41 HK)

Given the abundant news on Chinese developers defaulting such as Evergrande and Shimao plus the resurgence of COVID-19 hampering travel and wreaking havoc on the hospitality industry, we thought this was a great time to mention we are invested in a Hong Kong listed developer with exposure to the hotel industry.

The Great Eagle Group is a leading property development company in Hong Kong. It is a holding company that owns and manages an extensive international luxury hotel portfolio branded under The Langham, owns majority stakes in two listed REITS and develops, invests in and manages high quality residential, office, retail and hotel properties in Asia, North America, Australasia and Europe. Great Eagle is 33.8% owned by a trust held for the Lo Family. A member of the family, Lo Ka-Shui, acts as CEO and separately owns 29.6% of company's shares. Their major assets include Champion REIT and the Langham Hospitality Group as well as several smaller projects including Pak Shek Kok, Ho Man Tin, Investment properties and a lottery ticket.

Champion REIT (2778 HK) is a listed real estate investment trust, which owns two buildings in Hong Kong, Three Garden Road in Central and Langham Place - Office and Mall in Mongkok. It also has a minority stake in a London office building at 66 Shoe Lane. Three Garden Road is a modern glass and steel office complex that comprises Champion Tower, a 47-storey building, and ICBC Tower, a 37-storey building, as well as retail space. Langham Place is an integrated commercial development that comprises a 59-storey Grade A office tower and a 15-storey shopping mall. Clearly these assets have suffered due to the Hong Kong riots in 2019 and the almost complete closure of Hong Kong since COVID-19 began. In fact, the NAV per share from independent valuers has gone from HKD 11.42 at year-end 2018 to HKD 8.32 at half year 2021.

Vacancies have risen in both office assets with rents stable despite falling rents in the city. Inversely, they have kept the mall occupancy at 100% with lower rents. There appears to be some stabilization in both rents and vacancies albeit at lower levels in the relevant neighborhoods. We do not forecast any improvement until 2024. Ultimately, given the land scarcity of the city, its high demand in normal times coupled with our belief that given how small Hong Kong apartments are that ultimately work from home is less a threat than in other major cities, that a stabilization with modest improvement is likely, if not a full recovery.

However, that isn't necessary, if we look at our 67.3% ownership of the REIT, at the year-end price of HKD 3.99 this implies HKD 21.75 to Great Eagle (versus a year end share price of HKD 21.8 for Great Eagle). If you believe the half year 2021 NAV of HKD 8.32 this would imply HKD 45 per Great Eagle share. What if things did return to the heyday of 2018 NAV HKD 11.42? It would be worth HKD 62 to Great Eagle. We like cash flows. Great Eagle derives three sources of income from Champion REIT: the dividend, an asset management fee and an agency commission. On our forecasts, with little improvement (even declining in 2022 to 2023) we come up with *cash income at the trough* of circa HKD 1 billion. At a 15 multiple you get roughly HKD 3.75 per Champion REIT share or HKD 20.5 to Great Eagle.

Langham Hospitality Group (unlisted) is a collection of luxury and premium hotels under the Langham and Cordis brands. The company owns 12 hotels in London (Piccadilly), New York (5^{th} Avenue), Boston, Huntington Pasadena, Chicago, Washington DC, Toronto, Melbourne, Sydney, Auckland and two in Shanghai. They are developing owned hotels in Tokyo, San Francisco, Seattle, and Venice. They manage another 13 branded hotels with 11 in the pipeline. The owned hotels have a book value of HKD 17 billion. Some of these hotels were purchased more than 20 years ago. Could the historical book value be wrong? Using our best guess (often only city averages, likely conservative for luxury hotels in prime locations) we came up with price per key estimate that equated to about HKD 15 billion. As said, if we had better data our guess is this would be much higher. As for cash flows, using 2019 EBITDA and our estimate of free cash flow we would value the hotels at about HKD 10 billion and with all the development and managed hotels completed in 2024 and some return to normalcy, we would come up with HKD 18 billion. This would imply a per share value to Great Eagle of HKD 13.75 at low end cash flow estimate to HKD 24.5 once everything is completed. Current book value would be HKD 23.4 implied Great Eagle share price. We speculate that these trophy assets would go for more than our estimates, if ever sold.

ONTOLO, Pak Shek Kok, Tai Po is development of 723 luxury apartments and 456 parking spaces. It was bought in 2014 and was completed in late 2020. They have sold 545 of the units so far at HKD 18,233 per square foot and 115 parking spaces at HKD 2.5 million each. We believe the total cash flows remaining to be around HKD 6-7 billion or roughly HKD 8-9 per share.

Ho Man Tin is a residential development project located near the Ho Man Tin MTR station, which will include around 742,000 square feet of luxury residences. The group acquired the rights in February 2021 from a distressed third party at their initial cost in 2016. They have assumed all project costs, including outstanding land premiums and loans drawn. Their return from the project comprises; (i) a share of development profits; (ii) project management and other professional fees; and (iii) financial charges including a fixed interest rate on all capital which the Group injected for the project. They expect presale of the project to start in 2023 with completion by end of 2024. Great Eagle has paid HKD 1 billion for the land premium and assumed debt of HKD 5.8 billion. We currently ascribe no value to the project but expect this will be profitable in time.

Investment Properties include commercial real estate, apartments and offices located in Hong Kong and the US. The investment properties, appraised by an independent valuer, were worth HKD 9.3 per share at the half year 2021.

Langham Hospitality Investments (1270 HK) is a listed REIT owning three hotels in Hong Kong. It owns three high quality hotels in the heart of Kowloon, including the 498-room

The Langham hotel in the prime shopping district of Tsimshatsui, the 669-room Cordis hotel in the prime shopping area of Mongkok which is connected to the Langham Place Office and Mall, and the 465-room Eaton hotel located on the busy arterial Nathan Road. The hotels have suffered with first the protests in 2019 and then Hong Kong's closed borders during COVID. They did an equity raise in 2020, which increased Great Eagle's ownership to 69.3% The group is highly indebted and a negative book value of HKD -2.5 per Great Eagle share. The market equity value would indicate about HKD 2.5 in positive value to Great Eagle. The appraised value would have a positive net asset value of HKD 7.2 per Great Eagle share. We currently ascribe little value to their stake but see it as an option which could have a nice pay-off once travel to Hong Kong resumes.

The Lottery Ticket – The company has about a billion Hong Kong Dollar of listed and unlisted equity investments. Buried in their 2021 first half report is a small paragraph, which mentions that they had written off an investment in 2017 in an electric vehicle manufacturer as it experienced serious cash flow issues. They now believe this stake might have a positive value and even increased their exposure prior to the company listing through a SPAC in July 2021. They now own 13.4 million shares of the company and are subject to a six-month lock-up after listing. We believe this company's shares to be massively overvalued and quite possibly worthless, though we admit valuing revenue and profitless companies with numerous red flags is not in our circle of expertise. At year-end, this stake was worth about half a billion USD or roughly HKD 5.5 per Great Eagle share. We have no idea what it will be worth when the lockup expires or if management will even sell all or part of the stake when it does expire. Time will tell the ultimate value of this stake to Great Eagle shareholders.

Once we account for these ranges of assets and include other assets and liabilities, we come up with a range of 100% to 300% upside.

Since owning the shares we have received HKD 3.16 in cash and HKD 1 per share in below market price scrip dividend.

We note that the CEO has been an active buyer of the stock and we believe our greatest risk is likely that he will take the company private significantly below its fair value. Although we certainly do not want to underplay the risks associated with COVID on the hotel industry, Hong Kong office rents and Chinese government influence in Hong Kong.

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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 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, 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 hope everyone enjoyed the holidays and wish you a great start to 2022. We believe it will be a great year for the value investor!

Yours faithfully,

Palm Harbour Capital