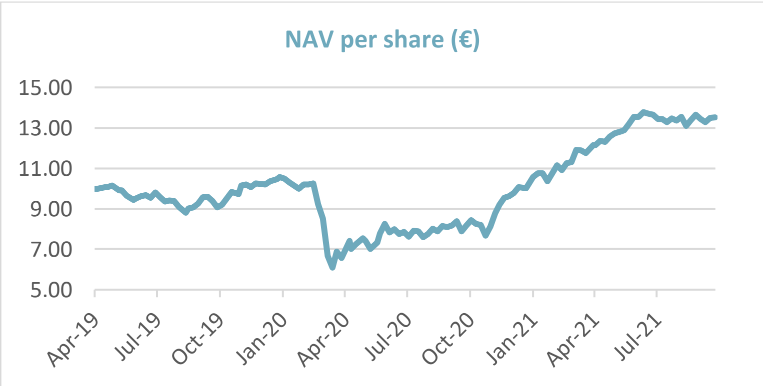
Dear fellow investors and friends,

During the third quarter the fund lost -0.05% 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 below European and global benchmarks. We ended the quarter with a year-to-date performance of 33.5%. Inception to quarter end return was 36.3% or 13.2% compounded annual return. Similarly, our last reported NAV at quarter-end was 13.45 (30/09/2021 -1.4% from the closest reported NAV at second 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.



The third quarter was a rather vexing one for us. It felt like a lot of running just to stay still. For the most part, our companies reported good to great earnings, yet their shares generally sold off on earnings, despite positive outlooks for the rest of the year. It seems

[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.

profit taking after a strong run, fear we are at the top of the current expansion or the various resurgence of COVID in different parts of the world were the key drivers. We were generally happy with the companies' progress, if not the share price moves that came with the reports. Our only real worries were around supply chain concerns and inflation. We did have a couple of notable exceptions, which we will detail later. During the quarter we exited four positions and added three new ones.

Just in case you missed our last nine letters, we still believe central planners, errrr central bankers, are massively distorting capital allocation and setting the kindle for inflation and financial distortions. This now seems to be entering the mainstream dialog. Unfortunately, it appears this is just further fueling the bubbles in crypto and profitless hope and dream stocks. Without rehashing too much, we think the best way to preserve wealth from both inflationary or deflationary trends is by owning high-quality companies with strong products and good cash-flow generation, bought at a discount to intrinsic value. This provides the margin of safety necessary to withstand shocks to the system and compound purchasing power through time. We do not know where bond yields or inflation are going next week, month or year. But we do want to protect our portfolio and we strongly believe that our mix of undervalued cash-producing companies is a great way to be prepared.

* * *

Contributors		Detractors	
OCI NV	+126 bps	Melco International	-117 bps
International Game Technology	+98 bps	RHI Magnesita	-93 bps
OVS SpA	+89 bps	Avid Technology	-72 bps
Ginebra San Miguel	+74 bps	Unieuro	-69 bps
Danieli (Saving shares)	+62 bps	Esprinet	-64 bps

The largest contributor during the quarter was OCI NV, the nitrogen fertilizer and methanol producer, which we introduced in our second quarter 2019 letter. OCI added 126 basis points to the fund after ending the quarter up 24%. OCI announced record second quarter EBITDA and free cash flow with a positive outlook for the year. Corn prices have recovered from their multi-year downtrend, enriching farmer incomes and allowing them to buy more nitrogen fertilizers to improve their yields. Similarly economic growth has fueled the need for more methanol after last year's downturn and pricing is supported by higher oil and gas prices. This is great timing for OCI as they have largely completed all their growth investments. Our thesis is predicated on this switch from investing to the harvesting phase of their capital expenditure cycle. Capex should drop benefiting free cash flow, which will be used to pay down expensive debt resulting in lower interest expense, ultimately improving shareholder returns.

To make a good situation even better, the global marginal producer is a Chinese company using coal, which has suffered volatile swings and is needed by the utility sector, which has further lifted fertilizer pricing. The natural gas squeeze has also taken out high-cost producers in Europe and elsewhere. OCI has almost 50% of their gas supplied at low fixed costs, driving exceptional margins. The company also refinanced their joint venture with ADNOC, Fertiglobe, and announced its IPO on the Abu Dhabi stock exchange during the quarter (which subsequently happened during the fourth quarter). This will enable a special dividend to OCI, and likely the introduction of regular dividend payments sometime in 2022 to OCI's investors. While this goldilocks scenario of strong demand, limited supply, limited new capacity (especially in low-cost gas markets) and high raw material prices aiding the low-cost producer is unlikely to last indefinitely, it should persist long enough to put their balance sheet in a strong position and enable durable shareholder compensation, even after prices normalize.

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 98 basis points to performance. The company reported second quarter earnings with lottery again doing extremely well with 35% same store sales for the second highest revenue and profit in segment history. There was also progressive recovery in land-based Global Gaming and significant growth (+41%) in Digital & Betting activities. The company raised guidance and is expected to exceed 2019 levels for their key financial metrics. The company announced a Capital Markets Day in November and it was also rumored that their main competitor, the highly levered Scientific Games, was looking to exit the lottery business. Both of which happened after quarter end and which we will discuss in more detail in our next letter.

The third largest contributor was OVS, an Italian fashion retailer, which we will introduce later in this letter. The shares contributed 89 basis points during the quarter after a 52% gain. Whilst the company completed a rights offer to fund expansion and reduce debt, it also reported a strong second quarter and raised full year guidance. The company is benefitting from strong market share gains, full pricing, lower working capital, and lower debt levels. We believe their strategic initiatives are paying off and there is some chance they will be able to leverage their market leading position.

The fourth largest contributor was Ginebra San Miguel, the Filipino gin producer, which we introduced in our second quarter 2021 letter. The company reported a strong second quarter, though slower growth from first quarter as pre-buying before a tax increase likely led to only 21% year over year growth. The margin, however, improved substantially. The current growth and margins are far above our conservative forecasts. The company further improved its market share in spirits increasing nearly 100 bps to 39.1% during the quarter.

The fifth largest contributor was Danieli, the Italian steel plant maker and steel producer, which was introduced in our third quarter 2020 letter. The company reported full year results at the end of the quarter well ahead of market expectations with EBITDA 12% and net profit 14% ahead consensus. The steel segment did very well with volumes ramping up and the closure of a loss-making mill in Germany. While the plant making division was in line with company forecasts, we believe it to be at the start of a long cycle as the global steel industry spends money to improve its environmental footprint with order backlog increasing 20% year over year and 13% ahead of consensus. After quarter end the company posted bullish guidance and mid-term outlook well ahead of expectations.

The top detractor was Melco International, the Macau casino operator which we introduced in our fourth quarter 2020 letter. The share price had been weak as COVID recovery kept being delayed with a couple of infections in Macau as well as several proper outbreaks in some feeder provinces in Mainland China. China's zero tolerance policy, while originally encouraging, now seems to keep Macau closed indefinitely. The market gave up on Golden Week or seeing a reopening with Hong Kong. The share took a proper dive, with the entire Macau sector, when vague plans were announced on renewing the gambling concessions. While there were two bullet points which could potentially be interpreted poorly (especially one regarding dividends), we think the spirit of the statement is not far from what we were expecting from the renewal. That is to say, Macau won't ask for large upfront payments but rather investments in non-gambling activity. We think this can be manageable for Melco and possibly even profitable. The timing of the announcement was particularly bad given Beijing's crackdown in the Technology and Education sectors. We admit, we could be very wrong here, but we don't think it is the government's intention to dismantle the industry, destroy their tax base and drive away foreign capital. We wait for more concrete terms.

The second significant detractor was RHI Magnesita, which we introduced in our second quarter 2019 letter. The shares fell after their first half trading update, despite maintaining guidance and claiming they were passing on price increases to offset freight costs. We were also taken aback, as steel markets ex-China were properly booming, and inventory levels were reported to be low. We were expecting upgrades and not tepid statements from management. Whilst we understand freight to be a major issue, we thought the company could pass on prices as seen at competitor Vesuvius with their first half results. Perhaps this is due to RHI having longer contracts and backward integration, but it doesn't seem reasonable that RHI was paying to FLY refractory BRICKS to keep customers happy yet not be able to achieve better pricing. In a point in the cycle where volumes and pricing are strong – surely freight surcharges would not be unreasonable? Did they shut down too much local capacity in the name of global efficiency? We still believe the company has many mid-term tailwinds and trades at an unreasonably low valuation, but we are none-the-less disappointed in their most recent performance and commentary.

The third detractor was Avid Technologies, the American visual and audio editing software company, which we introduced in our fourth quarter 2020 letter. The position contributed negative 72 basis points during the quarter. The market appears to have been spooked by a slowdown in subscriber numbers during the second quarter with reported net adds of 19.2k down from the first quarter's 30k and prior year's 24k, but still elevated compared to pre-pandemic levels of 15.6k on average. We were not as concerned as it was known and well-flagged that the second quarter is seasonally weak (outside COVID lockdowns) as most large studios renew in January or December (with up to 70% of the revenue amortized in the quarter in which it is renewed). We thought the -25% move during the quarter was an extreme overreaction, especially given they increased their free cash flow guidance for the year and increased our position.

The fourth and fifth detractors were Unieuro SpA, the Italian electronics retailer and Esprinet SpA, the Italian electronics and tech distributor. They lost 69 and 64 basis points of performance during the quarter respectively. Both reported perfectly respectable earnings, but supply chain worries overshadowed everything. Both had large pullbacks in which we increased our stakes as we believe they should be sufficiently stocked for the holiday period. We think competitors are in similar situations as well so if they do miss a sale, it will likely be postponed and not going to the competition. We would also note that any volume shortcomings may also be made up in pricing, given much fewer discounts in the market at the moment.

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At quarter-end, our portfolio had 110% upside to NAV, a weighted average
P/E of 10x, FCF/EV yield of 15% and a return on tangible capital of 28%.

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Ringmetall SE (HP3A GY)

We have been shareholders in Ringmetall since the launch of the fund. We haven't discussed it yet because it is small and illiquid. While it currently sports a €125 million market cap, it hasn't always been that large. It is also 59% controlled by the management team, Christoph Petri and Konstantin Winterstein (who incidentally is a large shareholder of RHI Magnesita), limiting the free float. We also did not size it particularly large, it is small and cyclical after all, but we mention it now as it somehow snuck its way into a top 10 position.

Ringmetall makes industrial drum clamping rings, drum liners and has a small industrial handling segment. The most important product line is the drum clamping rings, which are used to seal drums when transporting hazardous goods for the chemical, pharmaceutical, petrochemical and food processing industries. They also make drum accessories such as lids, gaskets, and handles which they try to cross sell to aftermarket clamping ring buyers. Clamping rings, which cost $1-2 dollars, represent only 3-4% of the total cost of a drum but are critically important to prevent leaks or other undesirable effects such as oxidation. They are so critical in fact; they must undergo a certification process with the United Nations and then often at the country level and with the end client. Ringmetall manufactures and sells over 2,500 types of clamping rings each with their own exact specifications and are separately certified. As rings are typically only re-used 4 to 5 times on average, a lot of the business is aftermarket sales and not sales directly to the major drum manufacturers. Clamping rings also don't travel particularly well given their weight, hollow interior, and low selling price. The shipping costs outweigh any benefit. Therefore, local production near drum manufacturers and end clients is essential. Due to this, Ringmetall has in some geographies over 80% market share.

Ringmetall has been able to pass on higher costs efficiently, demonstrating pricing power. Still, they are benefiting now as higher raw materials such as steel push the average selling price higher and as their margins are maintained or even grow, it translates into higher earnings and cashflow.

The company entered the liner business in 2018 through an acquisition. We don't think this business is quite as high quality but nevertheless has strong growth. Liners are used in the drum (or other containers such as boxes or beer kegs) to protect the drum contents, allowing the container to be re-used more frequently before a full refurbishment.

The last segment is industrial handling, which has struggled in recent years. We believe things are improving there and the division should be sold as their earnings improve.

When we first purchased the shares, we thought they could make through the cycle free cash flow of around €10 million (some years better, others worse). We have since lifted this to €14 million giving us a current 11% free cash flow yield, which we still find attractive.

OVS SpA (OVS IM)

Sticking with our theme of small companies with relatively small position sizing in the fund, we present OVS. The company is a brick-and-mortar fashion retailer, in a country with at best stagnate growth in clothing (or GDP for that matter). Did we mention that following the disastrous entry into the Swiss market by buying bankrupt Charles Voegele, subsequently liquidated, it is an over-levered turnaround?

For those of you still reading, we know retailers are generally out of fashion unless they use the words "tech" or "pure online player" often enough, but we believe there are a few things to like about the company and its shares.

First, we believe there is room in the market for some omni-channel players. Many people still enjoy browsing aisles, being able to pick up and return items physically (and often more quickly than with pure online peers). This is especially true in smaller towns – where Amazon and Zalando have little market share. We think professional buyers and quality control help as well, which is lacking at Amazon (plus fake reviews). We note Next in the UK seems to be able to hold its own in a market much more advanced in online retailing.

Second, they have repositioned themselves well in the "family" and "value" categories, where mothers can go to pick out kid essentials and perhaps something for the husband or herself. We think these two segments are more difficult to move fully online as bulky low value items, shipping costs and trying to properly fit a growing child make pure online more challenging financially. In fact, they were able to hold inventory whilst in lockdown and sell it the next year at full price due to their focus on children and away from pure fashion. One can argue that they ultimately fared better than their top offline competitors Zara and H&M through the crisis who added 38 basis points and lost 33 basis points of market share respectively in the past 12 months versus a gain of 96 basis points for OVS[2].

Third, the Italian market is much more fragmented than other developed countries. We believe there is a great consolidation underway, egged on by COVID, and OVS, as the player with the largest market share, stands to win. This has already been occurring with their market share increasing as mentioned by 96 bps in the past 12 months to 9.01%. In contrast to pure online players such as Zalando who only gained 44 basis points (and OVS is still 3x the size) and Amazon's market share gain of 80 basis point (where OVS is still 2.4x the size). We find that quite impressive during COVID lockdowns!

Fourth, since March 2019, the company has a 25% controlling shareholder, Tamburi Investment Partners (TIP IM), a publicly listed investment vehicle with an outstanding record in the Italian market. We have met them and appreciate their local knowledge and long-term vision. We believe this provides good stability and a better strategic focus. We note that our average price in the shares is below the €1.85 that Tamburi paid for their 17% stake they purchased from BC Partners.

Fifth, and this is sort of a combination of the first, second and third points, OVS is in the process of using their scale and local knowledge to build partnerships with international players who would like a local presence and distribution in Italy without having to do it all themselves. Why not leverage OVS's franchises and distribution networks? We note the recent agreements with GAP brands as a model for future deals after GAP decided to exit the local market. We doubt they will become the next Next or get the multiple of Shopify or (pre-collapse) THG but feel the stock should be worth more than a double-digit free cash flow yield on likely very conservative consensus numbers. Whilst the shares have already made good progress towards our price target, we see strong cashflows and deleveraging ahead.

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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

[2] Source: Sita Ricerche / OVS Presentations

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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.

Our long-time analyst Thomas Livesey left the company at quarter-end. We thank him for his hard work and wish him luck in his new endeavors.

We hired Konstantinos Kontos who just completed the Masters in Finance at London Business School with a concentration in investment management. Prior joining LBS, Konstantinos held corporate development and leveraged finance roles with Lloyds Bank where he worked for five years. Konstantinos holds a Masters in Energy & Turbines and a Bachelor in Mechanical Engineering from Aristotle University of Thessaloniki. He has also completed CFA level two. Welcome to the Team!

Yours faithfully,

Palm Harbour Capital