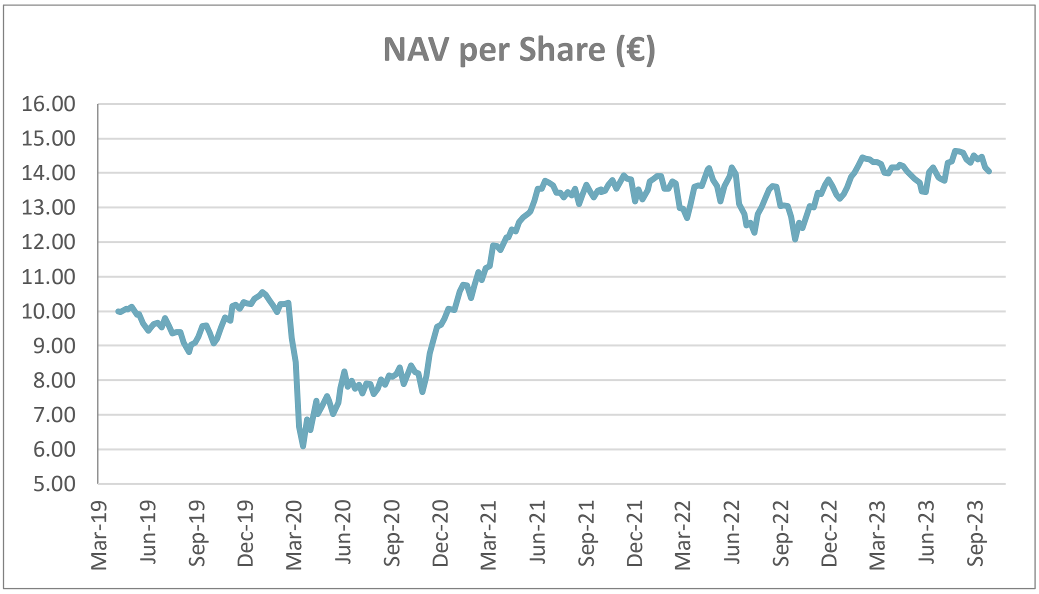
Dear fellow investors and friends,

During the third quarter the fund gained 1.86% 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 below European and above global benchmarks. Inception to quarter end return was 40.5% or 7.9% compounded annual return. Our last reported NAV at quarter-end was 14.05 (28/09/2023), +1.52% from the closest reported NAV at the second quarter end of 13.84 (29/06/2023). 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 15 bps per quarter at current AUM. We project this to decline significantly as AUM grows. Please see our comment on management fees.

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The fund started the third quarter with a very strong July (+5.8%) and hit a new high of 14.64 on 27/7/2023. Unfortunately, August and particularly September were not as kind with losses of -0.8% and -3.2% respectively. Whilst there was one or two company specific incidents during the second quarter earnings' reports, on the whole we believe the vast majority of the performance in August and September had very little to do with the fundamentals of our portfolio companies. On the contrary, there were many positive developments and strategic actions taken by our companies to unlock value.

After a bit of an AI lovefest in the second quarter, the market narrative seems to again focus on bond yields. Whether they are increasing due to inflation remaining stubbornly high, the US economy remaining "too strong" (What?), global recession fears, war, or ridiculously large US budget deficits, we do not know. There is probably some truth in all of it. We think 5% yields on ten-year government bonds seem reasonable. If your balance sheet, business model, or the value you paid for an investment can't handle rates at 5% you probably made a mistake. We think it is healthy to clear the junk out of the market and hope central banks have the will power to fight inflation and let a healthy correction occur. Likewise, we think it is good to remind governments to watch spending and for companies to remember capital isn't free.

Our favorite valuation methodology is calculating mid-term through the cycle free cash flow and apply a reasonable multiple to this estimate based on the growth outlook for that free cash flow and the company's return on tangible capital. Whilst we calculate mid-term through the cycle cashflows, we tend to buy companies trading at least at a 10% free cash flow yield based on near-term earnings. Thus, we believe that our portfolio stocks are attractive even if cash is yielding 5%. We are buying companies at a higher and growing yield, with pricing power, and that can offset inflation, unlike cash and bonds. We seek companies with growth and high returns on tangible capital, these two factors mean that the company can take their cash flows and invest them at higher returns than cash. Therefore, we do not think that interest rates moving from 1 to 5% make a material difference when we are targeting far higher returns through the cycle.

This isn't the case with highly valued companies that we think fall into three general categories. The first are those high quality, yet slower growing compounders. If you pay say 1-2% free cash flow yield (far below rates at 5%) and they only grow at low single digits, it takes many years to reach what cash is trading at today, let alone earn a healthy return. Given higher rates, multiple expansion is more difficult, thus the company has to grow its way to a higher yield, which is considerably more difficult and in the meantime, they are underperforming cash. The second type of higher valued stocks are often those with little to no short-term earnings with the expectation of profits far into the future. These are even less attractive against higher interest rates as you must discount those far into the future profits back to today. When you size that up against the alternative of higher interest rates, they look unappealing, especially as those long term estimates are less predictable than those based on historical evidence and shorter time frames. The third category are those are that are correctly priced for their growth outlook, which we also find unattractive as they do not provide a margin of safety if something unexpected occurs.

That all said, our portfolio seems to be derating despite its composition of strong balance sheets and cash flows (today's not years in the future), which seems like a theme specific to the small-cap value sector. We understand some of our economically sensitive names are subject to the fear a recession, but even defensive names we hold seem to be almost without bids. Counterintuitively, we think this is a great set up for performance in the coming years.

We first purchased Avid Technology shares in August of 2020 for around $7.60 per share. As we outlined in our fourth quarter 2020 letter, we saw an undervalued company that was dominant in its niche of long-form multi-editor video and music production software. The company was transforming to a software as a service business model, overcoming accounting restatements ("non-cash revenue"), had a new management team and was benefitting from the boom in streaming services. The company managed to rapidly deleverage and started to return capital to shareholders, whilst continuing to build out its leading product range. The shares peaked in the high thirties in mid-2021. The company faced a couple of setbacks and earlier this year, had a profit warning due to (short-term) supply chain issues with chips for their music production hardware and a (short-term) writers' strike. For some reason, completely unfathomable to us, they decided to sell themselves to private equity for pennies on the dollar. We cannot imagine why the company, in the midst of very short-term issues, would sell themselves for only $27.05 per share. It was bizarre watching the sell-side take down their $45 per share targets to match the $27 deal. We had thought the shares could easily have reached $45 in a couple of years and perhaps were worth as much as $75 in our five-year forecast. We waited several weeks for a counteroffer, though we thought it difficult as the largest holder, who sat on the board, had irrevocably agreed to the deal. Alas, we sold our shares and moved on. Although happy with our return (and even managed to trade it well), we were flabbergasted that one of our favorite compounders was sold for such a ridiculous price under such circumstances.

We had two spin-off situations in the third quarter with our largest position Telekom Austria spinning off its mobile tower assets into a separately listed company on the Vienna stock exchange. We believe that this will unlock significant value for both parts. We are primarily interested in the remaining telecoms business which will have very little debt and will be in a position to deploy capital in accretive ways or significantly return capital to shareholders. The tower company, EuroTeleSites, while restricted somewhat by its financial leverage, should be able to de-lever and participate in the European tower consolidation. The second spin-off situation was Companhia Brasileira de Distribuição (PCAR3 BS), which controls the Grupo Pão de Açúcar supermarkets in Brazil and a stake in CNOVA in France. This company spun-off its stake in Éxito, one of the largest Colombian supermarket chains, and a majority stake in the largest mall owner and operator in Colombia as well as supermarkets in Uruguay and Argentina. We believe these businesses had no synergies and there is more upside as independent companies. We note the spin is in the context of the restructuring of their primary owner, the Casino group in France, who will be seeking to quickly maximize the value of these assets. We believe once this overhang has been removed both stocks will rerate substantially.

We sold our long-held position in Stora Enso, while we believe pulp markets are likely near the bottom, we are concerned that the additional supply in the market and weak Chinese macro will keep a lid on prices for the next couple of years. While inventory destocking is mostly to blame, we had also thought that their portfolio rejigging in recent years had left them in less cyclical businesses. However, this doesn't appear to necessarily have been the case. Furthermore, we are concerned that the forest land is marked rather high given higher interest rates. All that said, the main driver was that we had more compelling ideas for your capital. We will keep a close eye on the developments as we believe the company to be undervalued and the sector to be near a cyclical trough.

At quarter-end our portfolio had more than 114% upside to our estimated NAV and was trading at a weighted average P/E of 7.5x, FCF/EV yield of 18% and a return on tangible capital of 33%.

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Contributors		Detractors	
Telekom Austria	113 bps	LNA Sante	-52 bps
Danieli Savers	53 bps	OVS	-36 bps
OCI NV	52 bps	Esprinet	-32 bps
C. Uyemura	40 bps	EuroTeleSites	-32 bps
Verallia	38 bps	Dalata Hotel Group	-28 bps

The top contributor during the quarter was Telekom Austria (+17.9% +113 bps), the Austrian and Eastern European telecoms group, introduced in our first quarter 2023 letter. We note the performance is overstated as you will notice that one of our largest detractors was EuroTeleSites, which was spun out of TKA during the quarter at the rather arbitrary price of €4.95 (adjusted for a 1 for 4 split worth €1.2375 per TKA share). It could just easily have been a lower number, and the balance would be shifted. In any case, it was still our most significant contributor. The spin-off transferred a billion euros of financial debt to the tower company, leaving Telekom Austria with less than half a turn of financial leverage, and one of the lowest net debt levels in the European telecoms space. Given its strong free cash flow generation, we believe this leaves ample room for a large dividend increase, accretive M&A, a special dividend or some combination of these options. We see significant upside in the coming years.

The second largest contributor was Danieli SpA saving shares (+17.4% +53 bps), the Italian steel plant maker and steel producer, which we introduced in our third quarter 2020 letter. The company reported their full year earnings 18% above last year, particularly driven by a 52% EBITDA increase in the plant making division. They also reported a record backlog of €6.2 billion, as demand for their green steel technologies continues to increase. Notably lacking was an offer to convert the savings shares to ordinary shares, which we found disappointing. A cleaner capital structure and increased liquidity would vastly help the shares. While the company increased the dividend from €0.30 to €0.33 on the saving shares, this was still a very low payout ratio with only €23.7 million paid out of €243.6m of net profits. If we consider this in the context of their net cash position of €1.8 billion (compared to a market capitalization of €1.7 billion at quarter end) we consider it rather miserly. While we admire the company, the corporate governance is poor and the disdain of the major shareholder for minorities is concerning. We plan to further engage with the board and attempt to cajole them into action.

The third significant contributor was OCI (+19.2% +52 bps), the Dutch nitrogen fertilizer and methanol producer, introduced in our second quarter 2019 letter and further updated in our fourth quarter 2021 letter. After a stellar 2022, the market for ammonia and urea softened sharply in the first half of 2023. The lowered demand caught the market by surprise given strong farmer's fundamentals. In addition, lower gas prices triggered hedging losses for OCI and lowered the global cost curve, hurting margins. This is because lower input costs have driven some capacity back into to the market, primarily in Europe, and some additional (high cost) supply additions in India put further pressure on pricing. We had lowered our exposure substantially during the past few quarters and we were prepared to add to our position during the decline. In the third quarter, as prices have stabilized, and we expect them to rebound into next year. We remain structurally positive on ammonia, urea, DEF and methanol markets and believe OCI's assets to be severely undervalued. We believe the opportunity in the shipping sector in particular could be a game changer for the industry.

The fourth largest contributor was C Uyemura (+14.7% +40 bps), the Japanese chemicals supplier to the printed circuit board industry, which we introduced in our second quarter 2021 letter. In August the company reported their first quarter FY 2024 numbers with sales down by 13% mainly due to inventory adjustments triggered by curtailed investment in data centers. The expected slowdown in the printed circuit board market started to become evident and indeed the company had already predicted full year guidance foreshadowing a challenging fiscal year 2024 with sales estimated down 23%. Nevertheless, for reasons unknown to us, possibly related to a weaker yen, subsidies for chip makers and AI mania, the shares reached an all-time high. We reduced our position to crystalize some profits.

The fifth contributor was Verallia (+8.2%, +38 bps), a leading French glass packaging manufacturer, which we introduced in our second quarter 2022 letter. The company posted record earnings in the second quarter with sales increasing by 22.7% enabling a stellar EBITDA margin of 32.2%, 490 basis points over last year. The increase was primarily driven by higher pricing and was partially offset by lower volumes. Management once again raised EBITDA guidance to from "greater than €1.0 billion" to €1.10-1.25 billion, while maintaining the sales growth target of more than 20%. We are incrementally more cautious about a potential drop in volumes and are concerned about the potential for price re-negotiations for next year especially as some input costs have fallen. There have also been announced capacity additions, which given lower volumes, are of a concern. We reduced our position during the quarter.

The top detractor was LNA Sante (-12.6% -52 bps), the French nursing home and healthcare facilities operator, which we introduced in our fourth quarter 2022 letter. Revenues from nursing homes and other healthcare activities all increased, posting a combined organic growth of 6.9% in the first half of 2023. The occupancy rate has fully recovered to pre-pandemic levels and currently stands at 94% in France, significantly higher than the two closest peers, and to 90% in Belgium. Management expects growth to accelerate in the coming quarters and tariff renegotiations to gradually alleviate margin pressure. Leverage looks optically high, but the operating business is 1.9x levered, which should not be considered excessive, with the remaining debt linked to long-term leases and real estate assets that are being refurbished and are slated to be sold. As a reminder, LNA acquires, re-models and subsequently sells their care homes to investors, which is strategy that differs from the other French care home operators. We believe the share pressure might be linked to troubles at its listed peers, especially the focus on Clariane (formerly known as Korian), which many believe may need to follow Orpea down the restructuring path (and indeed was announced post quarter-end). LNA management reiterated an organic growth target of 6% and sales target of €720 million for 2023. We continue to believe that LNA faces short-term rather than structural challenges, and hence offers significant upside potential.

The second largest detractor was OVS SpA (-23.5%, -36 bps), the Italian fashion retailer, which we introduced in our third quarter 2021 letter. OVS reported a sales decline of 2% predominantly due to a tough May, which is the most important month in the second quarter, linked to the unusual rainy weather (when isn't weather to blame in retail?). Lower sales and inflation put some pressure on adjusted EBITDA margins, which decreased to 14.8% from 15.3% in the second quarter 2022. On the other hand, OVS reported a positive like-for-like performance in every brand compared to 2022, coupled with further market share gains, with womenswear performing particularly well (sales up 40% from the first half 2022). According to the management, this sales trend is expected to continue in the second half 2023. Management announced an additional €20 million buyback program, which should be highly accretive since we believe that OVS shares trade at a bargain price. We understand market's concerns about discretionary spending in an operationally levered business, however OVS continues to execute well.

The third significant detractor was Esprinet (-12.9% -32 bps), the Italian electronics distributor, introduced in our fourth quarter 2019 letter. Esprinet's strategy to reduce unprofitable business collided with a slowdown in the Italian and Spanish ICT[2] market. According to management, business and consumer confidence weakened with businesses, the presumably more resilient customer base, adopting a much more cautious approach to IT spending. The gross profit margin improved (from 5.27% in first half 2022 to 5.53%) to a seven-year high providing evidence of management's execution, while inventory management (inventory days down to 54 from 57 in the second quarter 2023) released cash and their working capital reduction plan started to bear fruit. After a number of strong years, we are fine with a macro slowdown and just as we sold on strength, we are buying on weakness given it is trading well below liquidation value and on a greater than 20% normalized free cash flow yield. It is worth noting that the management and the Chairman have been buying post the second quarter results.

The fourth largest detractor was EuroTeleSites (-24.7%, -32 bps), the Austrian telecommunication tower operator which recently spun off from Telekom Austria and which we discussed in our first quarter 2023 letter. EuroTeleSites declined from the arbitrarily set spin-off price, which we could attribute to either the long-duration thesis not being compelling in the short-term or classic spin-off dynamics with larger investors and index trackers ditching the smaller leg of the spin-off story. On the former, it is true that Telekom Austria transferred significant financial debt and the company is levered a rather substantial at 7x net debt to EBITDA with no dividend for four years and little

[2] ICT: Information and Communication Technologies

possibility of M&A given the need to de-lever. Their growth plans also limit the free cash flow for these activities. On the latter, it is likely that this selling pressure will end and eventually a new shareholder base will be found. In either case, telecom towers are highly appreciated infrastructure assets. EuroTeleSites trades at 7.5x EBITDAaL with peer Cellnex trading at 17x. Cellnex sold a minority stake in a similar asset with a low tenancy ratio and low growth tower operations in Denmark and Sweden for 24x EV/EBITDaL. All European transactions that we have found are valued vastly higher multiples than its current price implies. We believe it trades at a normalized FCF yield of 13-14% although given their growth capital expenditure plans this will not likely be seen in full until 2028.

The fifth significant detractor was Dalata Hotel Group (-13.3% -28 bps), the Irish hotel operator. The company reported sustained demand from domestic customers and strong return of international travelers, with Dublin airport reporting passenger numbers at par with 2019 levels. Sales increased by 29% versus first half of 2022, of which 38% is attributed to the seven new hotels added to the portfolio. Their adjusted EBITDA increased by 24% (from €83.5 to €103.4 million) with the margin 100 basis points higher than pre-covid levels (from 40.4% in first half 2019 to 41,4%) on a like-for-like basis. Management remains optimistic for 2023 with like-for-like RevPAR[3] increasing 5% versus 2022 and they are very focused on executing their pipeline of 1,141 new rooms. Management also announced a progressive dividend policy based on post-tax profits. Yet the share price is down by 14% since the beginning of the quarter, possibly on worries that consumers will reduce their travel demand. The shares trade well below the value of their real estate, let alone a deep discount to their cash flows.

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Ocean Wilsons (OCN LN)

Ocean Wilsons Holdings Limited is a Bermuda-based investment company with two principal subsidiaries, Ocean Wilsons Investments Limited (OWIL) and Wilson Sons Limited. The group wholly owns OWIL, which owns a collection of investment funds, and holds 56.58% of Wilson, Sons (PORT3 BS), one of the largest providers of maritime services in Brazil. Ocean Wilson trades at a considerable discount to its sum-of-the-parts, which isn't unusual for a holding company. However, we believe the announcement of a strategic review of its controlling stake in Brazilian listed Wilson, Sons ("WSON") has the potential to unlock the discount and could lead to considerable

[3] RevPAR: Revenue Per Available Room

upside. Furthermore, we believe the underlying fundamentals for WSON are improving. We see the potential for more than 100% upside in a liquidation scenario. Given the shareholder structure and recent events, we believe the probability of a liquidation has increased.

OWIL includes a diversified set of funds. Investment allocation seems reasonable but not exciting. The five-year annualized gross portfolio return is 4.9% which is translated to 3.7% post management and performance fees. They have clearly not done very well over the past years. Our only comment is that most of it is relatively liquid and probably a bit less volatile than the market. We could think of a lot of better uses for this money. As at the end of the second quarter the portfolio was valued at roughly $300 million.

WSON is one of the largest providers of maritime services in Brazil with activities including towage, container terminals, offshore oil and gas support services, small vessel construction, logistics and ship agency. WSON is the leading tugboat operator in the consolidated oligopolistic Brazilian market. Moreover, it operates Rio Grande and Salvador container terminals, the only dedicated container terminals in their respective regions. WSON also operates the Santo André logistic center, two leading shipyards of strategic importance located in Brazil's largest port of Santos, and various offshore support bases. Finally, the company holds a 50% stake in an offshore support vessel company that despite recent challenges, is experiencing significantly improved utilization and increasing daily rates.

Our base case valuation is based on OCN investment portfolio reported figure at 30th June 2023 plus the market value of WSON stake, which we find reasonable based on both our cash flow forecasts and peer multiples. Based on the latest reported value, the investment portfolio is worth approximately $300 million (£6.9 per share), on which we apply a 25% haircut to adjust for illiquidity and a possible market fluctuation. On top of that, the market values WSON stake at $723 million at BRL 13.9 per share (£16.6 per share). Hence Ocean Wilson appears to trade at a 56% discount to NAV on a Sum-Of-Parts value of £21,9 per share. At this price level, investors buy a dominant and well-run towage and port facility business in Brazil and a well-diversified portfolio at >50% discount. In the meantime, OCN provides a growing 6% dividend yield to compensate investors while waiting for the market to recognize or the management to unlock the full value.

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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. We do not charge entry or exit commissions despite our KIID saying it is theoretically possible.

Our focus is and remains on the portfolio, but we do need to grow our assets to a sustainable level. Please feel free to share this letter with any potential investors.

We now have a commercial agreement with Cobas Asset Management to distribute our fund in Spain. You can now open an account and place orders with them. For more information, please contact them via phone or email. In the future, we hope it will be possible via their website. You can reach the Cobas team at +34 91 755 68 00 or international@cobasam.com

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: Renta 4 (you may need to contact them – it is not offered on the website yet), Ironia, 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 ajbell.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