Dear fellow investors and friends,

During the second quarter the fund gained 12.41% 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 better than European and global benchmarks. We ended the quarter with a year-to-date performance of 33.57%. Inception to quarter end return was 36.28% or 14.93% compounded annual return. Similarly, our last reported NAV at quarter-end was 13.64 (24/06/2021) for an 15.07% CAGR since inception. We are getting closer to our mid-to-high-teens compounded annual return target. We are extremely optimistic about our portfolio's prospects and believe we will reach our 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 mgmt. fees.

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The second quarter was for the most part similar to the first. COVID cases declined through the quarter (until the very end when Delta variant began to impact) and most developed economies eased restrictions. Our companies generally reported strong earnings. Some even printed their best first quarters on record, with a generally cautiously optimistic outlook for the year. Almost all mentioned inflation as a concern but thought they could pass most costs on. The portfolio performed relatively well on the back of strong earnings and cash generation by our companies. Valuations remained low, but we sold portions of our winners to fund our laggards. We exited three positions and entered three new positions.

Unlike the Fed and most investors, we do not think "goldilocks" conditions will last forever. Most of the market remains vastly over-valued, pricing in near blue sky scenarios and is awash with retail money pouring into "hot" names. Junk bond spreads are nearing all-time lows. According to Bank of America more funds entered the market in the first half of 2021 annualized than in the prior 20 years cumulatively combined. Leverage has increased substantially as well according to FINRA. Rampant speculation continues, with meme stocks, bitcoin and the like continuing their daily volatility. Meanwhile, insiders are dumping stocks at the highest rate on record as a busy pipeline of IPOs and SPACs take advantage of a market seemingly willing to buy at any price.

We still consider the Fed's policies to be vastly distorting. As far as we can tell they seem designed only to inflate financial assets and perhaps allow politicians to avoid tough decisions. We wonder: why is the Fed buying $40 billion of mortgage securities a month when house prices are skyrocketing and the issue is clearly supply rather than financing? What happens if the Fed is forced to raise rates and suddenly a third of the government budget needs to go to interest payments?

The *topic du jour* in recent times has been inflation and, continuing from the first quarter, long bond yields. We see both sides of the argument. Much current inflation is likely transitory (the one everyone mentions is lumber). There are plenty of trees and we can cut them down. While mills continue to be impacted by COVID, like many markets high prices will stoke supply. Semiconductor supply growth is a tougher issue to resolve, we're confident the market will eventually function here too. Transport driver shortages and shipping will take longer.

Some inflationary pressures may well be more structural – we note press coverage of consumer companies like Amazon/Disney/McDonald's offering higher wages (cleaners >$16/hour). Once wages move higher, they rarely go back down, even if some bottlenecks are solved, such as increased migrant worker supply with the re-opening of closed borders. Supply chain disruptions in the past year have led many firms to bring supply chains closer to home and we think this clearly inflationary trend is unlikely to reverse. Sustainability and the greening of the economy are also inflationary

in nature, involving increased environmental levies as companies and consumers are ultimately forced to bear costs of their impacts that they did not have to in the past.

A bloated Fed balance sheet is also inflationary by definition, driving asset values higher. It stands to reason that some portion of that increase in wealth will lead to increased consumption.

Many commodities face inflationary pressures that are less transitory. Many went through a classic boom and bust cycle with little appetite for capital expenditures in the past ten years. Now values led/ESG investment strategies are impacting the ability for oil and gas players to invest in exploration and development and electrification promises a step change in copper consumption with little additional supply ready.

The low inflation / deflationary school, however also makes some strong points. Much recent growth has been in services such as software with low capital requirements and next to zero incremental cost. Demographics and the greying of the developed world and China is a mega-trend that is deflationary by nature (see Japan).

Perhaps the most ironic deflationary trend is another unintended by-product of the Fed's policies. Cheap credit, increased risk appetite and inflated asset prices create wealthier one-percenters who pour money into venture capital and private equity. VC and PE in turn subsidize loss-making businesses who believe market share, and not profitability, is the key to success. Consumers benefit as the investors take the losses[2] and they benefit from price wars and cheaper services (name any VC backed firm, recent IPO, or anything Softbank has even looked at here).

We don't profess to know who's right in the short, mid and long-term. Inflation is usually transitory – until it is not. When inflation becomes widely expected by consumers, mindsets understandably change and they logically maximize resources by accelerating consumption at the expense of savings. Once that psychological line is broken, it hardly matters what anyone says.

Most developed market investors have only lived in a world with low inflation and thus don't understand the mindset that leads to run-away inflation. Analysts find it very hard to forecast when the future looks different from the past. We note with interest older investors seem more concerned about inflation than the larger, younger cohort.

[2] Technically, the companies take the losses and paradoxically often the investors are rewarded with higher company values. I loathe to use the word valuation as usually only price to sales ratios (or worse) are used.

For most people it is difficult to think in real-returns. Ultimately, what we are doing with saving and investing is preserving our purchasing power and then trying to compound that growth for our long-term savings objectives. If we don't spend a dollar today, we want to be able to increase our future purchasing power.

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.

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Interactive investor, the UK's second largest direct to consumer investment platform, ran a survey which showed that 88% of investors thought fund managers should disclose whether they invest in the fund that they manage and 77% said they would be more likely to invest in a fund if they knew the manager was also invested.

We fully agree and we've got plenty of skin in the game. The manager has more than 85% of investible financial assets in the fund. We are 100% committed to having our long-term investments in the fund and believe every manager should eat his own cooking.

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Contributors		**Detractors**	
Avid Technology	+178 bps	Melco International	-31 bps
International Game Technology	+169 bps	H&T Group	-18 bps
Ginebra San Miguel	+153 bps	Dalata Hotel Group	-18 bps
Esprinet SpA	+145 bps	Jost Werke	-17 bps
iHeartmedia	+107 bps	RHI Magnesita	-16 bps

The largest contributor during the quarter was Avid Technologies, the American visual and audio editing software company, which we introduced in our fourth quarter 2020 letter and which added 178 basis points to the fund during the quarter. The company

reported a 78% increase year over year in subscription revenue with 50% more paid subscribers and 75% of revenues now recurring in nature. Free cash flow guidance for the year was also significantly above the market's expectations. The company also hosted a capital markets day updating their compelling SaaS strategy and laid out their mid-term financial plan, which includes a significant further step up in free cash flow generation. If the company can reach their targets, the shares are still at a bargain price. They gained over 80% during the quarter.

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 169 basis points to performance. The company reported first quarter earnings with lottery in particular doing extremely well – same store sales were up 24% over the same quarter *in 2019* with the highest revenue and profit in segment history. The gaming division was also on track to reach its 2019 levels by the end of the year. The stock ended the quarter up 42%.

The third largest contributor was Ginebra San Miguel, the Filipino gin producer, which we will introduce later in this letter. The company reported stellar earnings and announced a special dividend. The stock contributed 153 basis points to this quarter's earnings despite only just being added to the fund.

The fourth largest contributor was Esprinet SpA, the Italian electronics and tech distributor, which was introduced in our fourth quarter 2019 letter. It contributed 145 basis points to performance after not participating in the value rally in the first quarter. Its first quarter results were stellar with 23% organic year on year growth in revenues, a massive earnings beat to consensus expectations and a large cash position despite seasonality given its strong working capital management. Its return on capital improved even further to almost 20%. Guidance for the year was strong and we suspect very conservative. The shares were up 44% despite a 54 cent dividend being paid.

The fifth largest contributor was iHeartMedia, an American radio broadcaster and podcaster. The company benefitted from an increase in radio advertisement revenues as the economy reopened, strong growth in its dominant podcasting franchise, and rapid debt reduction. A potential strategic investor at the end of the first quarter had requested the FCC to allow them to increase their stake in the company as well.

The top three detractors, Melco, H&T and Dalata all suffered from a prolongation of lockdowns with minor losses. There is no particular reason that we know of to explain why Jost and RHI Magnesita underperformed the rest of the fund.

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Unieuro SpA, the Italian electronics retailer, which we introduced in our third quarter 2020 letter reported full year earnings which were very strong with sales up almost 10% above pre-pandemic levels. The company fully embraced an omni-channel approach and benefited from work and school from home and the desire for better TVs and video games during lockdown.

Iliad, the French telecom company purchased 12% of the share capital. We await to see what the billionaire owner has in mind with this stake.

The company hosted its first capital markets day, at which management laid out plans to grow sales to €3.3bn in 2025, with online penetration a key driver of the targeted 5% annual growth rate.

Furthermore, the company paid a special dividend as they did not pay out last year for a total dividend of €2.60 per share. We paid €13 on average for our shares and they already paid €1.07 in dividends in 2019, while going from a net debt to a net cash position. This cash-generation is why we're involved. While we think earnings will normalize to some degree, there are still many tailwinds benefitting the company. The shares ended the quarter at €24.40, still trading for less than 10x normalized earnings.

Befesa, the steel dust recycling company, unveiled a major acquisition in June with the purchase of American Zinc Recycling. After falling into bankruptcy due to an ambitious smelter investment and perhaps a deficient hedging programme, AZR was acquired by creditors who were not natural operators of the assets. Befesa sees significant potential for operational improvement in the US market leader, though top management's attention will now be split between North America and China – where its first two plants are set to start-up soon.

Our number five holding, CIR, commenced a tender offer to repurchase ~13% of its share capital during the quarter. The price offered, €0.51, is too low for us to be sellers but if the company can acquire from other shareholders at this price then remaining holders stand to benefit.

At quarter-end, our portfolio had 106% upside to NAV, a weighted average
P/E of 11x, FCF/EV yield of 14% and a return on tangible capital of 32%.

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C. Uyemura & Co Ltd (4966 JT)

We opened a position during the quarter in an interesting Japanese company, a supplier to the electronics industry called C Uyemura. The company makes surface finishing chemicals for printed circuit board (PCB) manufacturers, and is considered a cutting edge supplier within its niche.

The PCB is the green board on which microchips (made by the likes of Intel) are placed. Although less sophisticated than the microchips, the PCB, with copper circuitry etched all over its surface, is ubiquitous and found in practically every electronics device you own. Making PCBs is at least a 16 step process, and one of the last steps is finishing the surface with chemicals such as tin or precious metals to prevent the exposed copper from oxidising. A tin-based finish is fine for most applications, so it is a commodity-type chemical. But in high-end applications where the semiconductor simply cannot fail (e.g. aviation, healthcare, military) a gold or platinum-based solution offers superior protection. This is the niche Uyemura plays in, where it dominates in the Japanese end-market and is strong in other Asian markets.

The roll-out of 5G and the increasing electronics content in cars should provide a tailwind for Uyemura for the foreseeable future. These are higher-end applications with sizeable volumes where reliability is crucial.

Globally about half the market for specialty PCB plating chemicals is in the hands of two large US-listed companies: Atotech and Element Solutions. Atotech, which only listed earlier this year, received a takeover offer on 1st July from another company in the chipmaking supply chain at a multiple of over 15x EBITDA.[3] Element Solutions trades at 13x. Uyemura, by contrast, trades at 4x EBITDA.

Chemical mixes are bespoke, and at the higher end of the market the board fabricators have no discretion to shop around for their supplies. Uyemura is similar to what Marathon Asset Management (see the book Capital Returns) calls a 'double agent' company. The prices and specifications of its chemicals are agreed not with its customers – the board fabricators – but with their customers, the OEMs (for example Apple). The board fabricators buy what they are told to buy, and Uyemura builds in a

[3] MKS press release gives $6.5bn EV; Atotech consensus 2021 EBITDA $420m (Factset as of 28/4/21)

healthy margin for itself. The company earns a solid mid-teens EBIT margin and a return on capital employed of around 20% - despite having a couple of less profitable divisions, which mask true underlying earnings.

Many investors are sceptical of Japan, and understandably so. Multiples there often reflect the poor corporate governance and anaemic growth prospects of the country. But we believe Uyemura is different. After some recent cajoling by activists, the company announced a suite of changes including the adoption of return on equity targets, a stock compensation scheme and a capital allocation framework that includes a six billion yen share buyback programme.

We project Uyemura can earn about 6.5 billion yen ($60 million) in free cashflow, which we anticipate will grow given secular growth in their end markets. Applying a 15x multiple to that cash flow figure (much more conservative than the 15x EBITDA Atotech was acquired at) gives about 100 billion yen in enterprise value. This being Japan, Uyemura also holds a sizeable net cash position of 30 billion yen, and investment securities add a further 12 billion yen. All told, this gives us a valuation for the equity of almost 150 billion yen, or 8,000 yen per share – a 75% upside compared with today's share price. The company has plenty of optionality in deploying their cash pile and restructuring loss-making divisions, which could considerably boost this outcome.

Ginebra San Miguel, Inc (GSMI PM)

Ginebra is a small, overlooked part of the San Miguel Corporation, one of the largest conglomerates in the Philippines. It is one of the oldest liquor companies in the Philippines with a 187 year history of producing gin and it is the top gin brand by volume in the world. The Philippines has the highest per capita consumption of gin in the world at around 1.4 litres, far ahead of number two Spain with 1.1 litres. The Filipino spirits market is divided into three with Ginebra having a 92% market share in gin (and a 38% market share of the spirits market overall). Emperador controls the brandy market (which is 27% of the spirits market) and Tanduay controls the rum market (also 27%). Other spirits such as vodka and premium imports account for the remainder.

Prior to 2010, gin was over 50% of the spirits market and Ginebra controlled it. The Philippines is a gin drinking country, especially in rural areas as gin provides the best price to alcohol ratio and Ginebra is a powerful brand. Gin is particularly strong in Luzon while rum is favoured in the Visayas and Mindanao. Brandy was introduced in a

big way by Emperador and in 2010 it became fashionable for urbanites to drink Emperador Light – a lower alcohol (27%) brandy. They pushed their marketing machine hard and took a significant amount of market share. This was unfortunate timing for Ginebra as they had just spent a considerable sum of money expanding capacity using debt. They had also entered the Thai market and were perhaps not fully focused on their new competition. This led to several years of losses and a weak balance sheet.

Management eventually saw the issues and started to address them. They exited Thailand and several joint ventures, focused their portfolio on their most popular products and divested their non-alcoholic drinks. Fortunately for them, the Philippines is a gin drinking culture and after the initial enthusiasm around brandy, they were slowly able to win back market share. Taxes have been another thorn in their side and they have only been increasing. Ginebra has been able to pass along the costs so far without any issue and margins are returning to their former glory days (but still far below international peers so room to improve). They no longer have a debt issue and are in fact in a strong net cash position. COVID has given them a short-term boost, which while likely not sustainable, gave them plenty of extra cash that they now are back to paying a regular dividend and paid a special dividend on last year's earnings. The market has not fully given them credit for this turnaround or their strengthened balance sheet. Despite the recent rally, the shares trade at a 15% free cash flow yield, which we think is a bargain for a market-leading spirits company with strong pricing power.

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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 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 appreciate your support over the past two years.

Yours faithfully,

Palm Harbour Capital

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