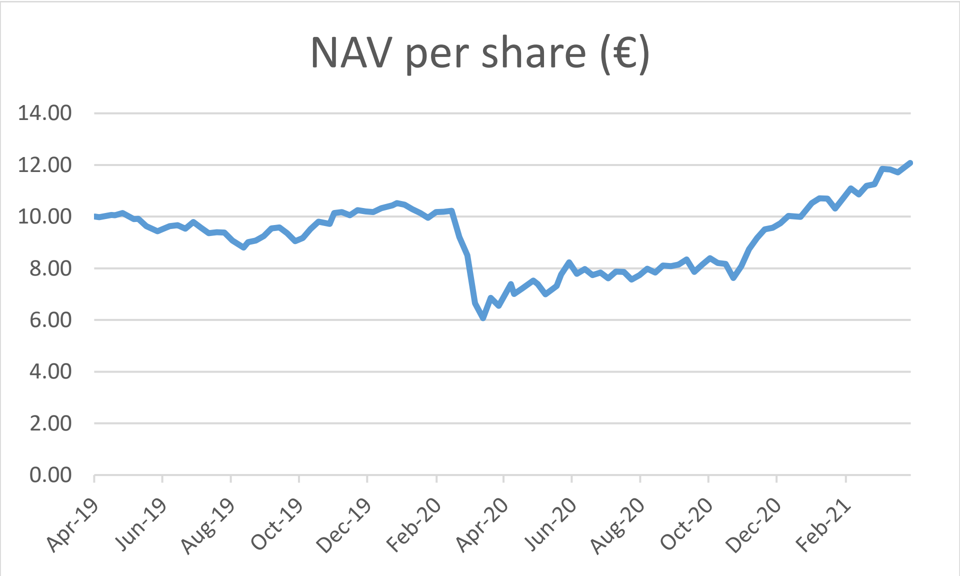
Dear fellow investors and friends,

During the first quarter of 2021 the fund gained 18.8% 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 would note that to us the above number appears better than European and global benchmarks. We celebrated two years on the 4th of April with an inception to date return of 20.8%. This is admittedly below the mid-teens compounded annual return we are striving for. However, 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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We have been asked how much of our recent performance was due to the value factor and how much was due to the unique characteristics of our portfolio. We found the question a bit odd as we normally do not think in such terms. For starters, one would have to agree on a definition of “value” or the value factor. We do not subscribe to the view that value is simply statistically cheap stocks based on price to book or price to earnings metrics. Unfortunately, this is what almost every value benchmark is based on and is the accepted definition used to describe the value factor. Our portfolio generally does not look much like a value index, which are chock full of banks and large companies - so simply stating our performance versus a value index is not very meaningful to us. Many US-based investors believe the entire European stock market is a value index. We can’t argue with the fact that value indices have done well recently, and our fund does contain many statistically cheap stocks. It is our belief that most of our positions went up due to the fundamental outlook for their businesses finally beginning to be appreciated by the market. In any case, if fund flows are helping our portfolio, we will not complain (though they could leave just as quickly).

Many pundits have ascribed the recent performance of value and underperformance of growth to the rise in inflation expectations due to strong economic growth, which will lead to higher bond yields. This in turn will lower the discounted value of future earnings and relatively increase the value of current earnings. Thus “growth” stocks with low or no current earnings but very high (possible) future earnings are now worth less due to their longer duration. While this can be mathematically shown using the Gordon Growth Model, we seriously doubt many practitioners use this relic of Finance 101. How many investors in these high-flying growth stocks are using negative rate German bunds in their discounted cash flow models? As far as we can tell, investors willing to pay absurd prices tend to use price to sales (if the company even has sales) or market cap to the (very theoretical) total addressable market size (TAM, TAM, TAM!). Of course, there are also plenty of investors who believe valuation is irrelevant or have no ability to estimate it.

It has been rather amazing the correlation of our portfolio to the daily fluctuations of the US ten year. Why macro funds and others sit around trading baskets of stocks based on small interest rate movements, especially global equities based on US 10-year yields, we find a baffling strategy. Short-term interest rates are notoriously difficult to predict - why do you think Morgan Stanley hired Mario Draghi’s son to be a rates trader? Basing your long-term investments on a few basis points move just seems ludicrous.

Why not think of it the other way around? Why haven’t low rates helped value? If you are forced out of your bank account by low or negative rates, wouldn’t you rather buy an instrument earning >10% of its value a year in cash which it invests in high IRR projects or pays out to you in buybacks and dividends? Why take the "safe money" in your bank account to buy highly risky future growth prospects with unknown outcomes years in the future? Are you that sure the business model, currently burning cash, is that great?

We feel the whole debate is a sideshow to the fact that economic growth is good for companies that benefit from an improved macro landscape. What isn't good is stagnation due to poorly thought-out central bank policy and government picking winners and losers through the credit and banking markets in what sometimes resembles a "planned" economy. What is *really* not going to be good is the eventual unwinding of the central bank policies that have encouraged lax lending standards, excessive levels of leverage and general misallocation of capital.

What we *do* like to focus on is the fundamentals of each business. We do not believe Gamesys was bid for due to the value factor coming into vogue or rising interest rate expectations. We believe it was bid for due to the fact it is a highly cash-generative growing business with products people want and good customer service. Likewise, we think an offer was made for ASTM due to its future prospects in winning concessions. Interest rate movements are an indicator of, not the cause of, economic growth.

We seem to have turned a corner in November of 2020 and our portfolio positioning is starting to pay off. We feel we could be in for a strong cycle favouring our strategy. When we look through our portfolio, we still see a significant discount to our estimate of intrinsic value. We think more will be unlocked in the coming quarters.

We would be remiss not to mention GameStop, billions pouring into SPACs, ETFs tracking social media noise, and non-fungible tokens. Insanity. Enough said.

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Contributors		**Detractors**	
Gamesys	+210 bps	MTU Aero Engines AG	-20 bps
Unieuro	+197 bps	Euro (cash)	-15 bps
RHI Magnesita	+163 bps	International Game Technology	-6 bps
Danieli (saving shares)	+149 bps	Esprinet SpA	+2 bps
OCI NV	+96 bps	Stora Enso	+8 bps

The largest contributor during the quarter was Gamesys Group plc, the online bingo and casino company, which we introduced in our first quarter 2020 letter. The company announced stellar earnings for 2020 after a year of continuous upgrades and a larger than expected dividend on the back of very strong cash conversion and rapid deleveraging. However, the main news was the announcement of a possible offer from Bally's Corporation (BALY US) at £18.50 per share (and a stock offer much below this). We do not plan to tender at this level since the company remains on a greater than 10% free cash flow yield on our numbers and trades at a big discount to the sector. The market seems to agree with us with the stock trading through the offer price and ending the quarter at £19.32, up 69% - the bulk of which was prior to the offer. We hope for an improved offer but would also be fine if Bally's walked away as our target price is still substantially higher than the current share price.

The second largest contributor was Unieuro SpA, the Italian electronics retailer, which we introduced in our third quarter 2020 letter. The company in January reported strong earnings for the nine months to November 2020 with adjusted EBIT twice the prior year despite full closure in April and rolling lockdowns and restricted trading hours throughout the year. 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. The company announced in March full year sales for the 12 months to the end of February up 9.8%. There were also hints of a substantial dividend to come after none was paid last year and a strong net cash position (excluding lease liabilities). The company is also set to benefit from a TV refresh cycle as Italy changes the frequency of digital TV broadcasts in 2022 and it continues to take advantage of smaller players exiting the market. Despite the 57% rally during the quarter, the company is still on a 14% normalized free cash flow yield and 7% dividend yield.

The third largest contributor was RHI Magnesita, the refractory company introduced in our second quarter 2019 letter, which gained 24%. The company announced 2020 earnings and a conservative outlook for 2021. Steel markets have improved greatly in the past few months with record margins for European producers. We expect a further re-rating of the shares as restocking of refractories takes place and demand returns to their end-markets. There have also been several announcements of new EAFs during the first quarter. The trend towards greener steel using EAFs will require an increase in refractories, which should benefit the company.

The fourth largest contributor was Danieli, the Italian steel plant maker and steel producer, which was introduced in our third quarter 2020 letter. The company reported a first half result above expectations and is likely benefiting from the current strength of the steel market. The industry has seen a marked increase in talk of "green" steel and Danieli is a top beneficiary as steel producers look to replace environmentally unfriendly blast furnaces with DRI/EAF technology – Danieli's core competency - most likely fuelled by hydrogen. We expect a substantial increase in orders in the coming years.

The fifth largest contributor was OCI NV, the nitrogen fertilizer and methanol producer, introduced in our second quarter 2019 letter. Ammonia prices are double prior year levels, driven by a strong fertiliser application season by farmers flush with cash from high crop prices, while pandemic-driven capacity shut-downs helped to reduce supply. Methanol pricing, too, remains positive, as industrial production recovers and methanol-to-olefins demand is improving with oil prices.

The largest detractor was MTU Aero Engines, the aircraft engine manufacturer introduced in our second quarter 2020 letter. Whilst the company reported an uneventful fourth quarter and 2020 earnings, the main driver was likely the slow roll-out of vaccines in Europe and the expectations of summer travel falling.

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ASTM SpA, the Italian motorway concessionaire introduced in our second quarter 2020 letter, received an offer to be taken private by its controlling shareholders, the Gavio family and Ardian (a PE fund). Whilst the offer price of €25.60 is about 50% higher than our entry price, we find the timing and price level to be very opportunistic. The company will soon consolidate and take control of Ecorodovias (ECOR3 BS) in Brazil and has a strong pipeline in Italy and the USA for further concessions. The company will also benefit from lockdowns ending in Italy and the likely economic activity improving in the coming months. We think the shares are worth at least €30 if not €35. One large shareholder has already complained the price is too low. We will likely take a wait and see approach to the offer.

Aryzta, the distressed bakery company introduced in the fourth quarter of 2019, had another busy quarter. After its EGM in September that replaced the board leadership, December saw the rumoured bid from Elliot Advisors at CHF0.80 materialize and an AGM, which saw further board changes. The new board swiftly rejected Elliot's bid and announced a new strategic direction, with a focus on turning around the European business whilst making the North American unit available for sale. The company also announced the sale of its North American pizza business and its remaining stake in French frozen food retailer Picard.

This quarter the announcement came that Lindsay Goldberg LLC would buy the North American business for an enterprise value of $850 million. This will allow Aryzta to refinance the rather expensive hybrids, which the fund owns. We bought the hybrids last year and paid around 70% of face value. We expect to collect around 120% in July. Our small equity position also benefitted gaining around 54% during the quarter.

Bayer held a capital markets day in March at which it set out a vision of growing its agricultural business at an above-market 3 to 5% from 2022-24. While it has struggled against rival Corteva recently, management seems confident in the new products coming out of Monsanto's sizeable R&D pipeline such as short-stature corn that can better withstand the strong winds of the US Midwest. The same 3 to 5% growth rate is forecast for Bayer's pharmaceuticals business from 2020-23, though the market is focused on the anticipated single digit decline in sales from 2024 when flagship anticoagulant drug Xarelto goes off-patent. Bayer expects growth to return from 2025, although questions remain about the robustness of its pharmaceutical pipeline.

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Cementir SpA (CEM IM)

Cementir SpA is the global market leader in white cement with 3.3 million tons of installed capacity and market-leading positions in Denmark, USA, Egypt, Malaysia, China and Australia. Cementir is also the only producer of grey cement and ready mixed concrete in Denmark with a strong position in Norway and Sweden, the third largest player in Belgium, and one of the main international operators in Turkey.

Its growth has been driven by investment and acquisitions which transformed the company from a domestic Italian producer to a multinational player in 18 countries and total production capacity of over 13 million tons. It even went so far as to exit the chronically fragmented and competitive Italian market completely, with the 2017 sale of its operations there to Heidelberg Cement.

White cement is a niche alternative to grey cement, used in high end construction projects in the Middle East as well as in swimming pools and tile grouting in Europe and the US. It is difficult to make because it requires high purity limestone, which is found in relatively few locations, and must be produced with the utmost consistency. Its higher selling price than grey cement means it is traded globally rather than locally. Cementir has a 13% market share in all white cements, 20% in high purity white cement and controls 25% of globally traded white cement.

The group intends to use €100 million of its free cash flow in the three years to 2022 to reduce its carbon emissions in anticipation of the cement industry's exemption from the EU's emissions trading scheme expiring at the end of this year.

The shares trade at a remarkable discount to European and global peers with lower net debt and often superior market positioning. The shares are currently trading at a mid-cycle cashflow yield of 12% while using excess cash for dividends and buybacks as well as green investments.

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The company is 71.26% controlled by the Caltagirone family, who initially purchased shares in 1992 and listed the company in 1995. Interestingly a portion of their stake is in the listed vehicle Caltagirone Group, which also includes stakes in Generali and Mediobanca. A basic sum-of-the-parts indicates the group trades at a 60% discount to net asset value providing an 150% upside and 250% upside including our target price for Cementir. The fund currently owns both Cementir and the holding company.

Stora Enso Oyj (STERV FH)

Stora Enso is a Finnish forestry group. It owns 2.4 million hectares of forest land in Scandinavia, from which it produces 9.7 million tonnes of board, market pulp, and paper and 5.3 million cubic metres of wood products. Stora is the European number two in containerboard, which is a fast-growing segment of the forest products market driven by the relentless rise of e-commerce. Its portfolio is skewed towards higher-margin product lines such as that used for packaging food and drinks, which make up ~30% of its earnings. The company also sells a significant amount of pulp to other processors, and has a sizeable legacy position in paper. This latter category has been viewed as the problem child, as the secular decline in office paper use and newspaper readership have been known headwinds for years. Stora has been running the unit for cash, and selectively repurposing paper mills to produce containerboard – a more cost-effective option than building greenfield containerboard mills from scratch. We acquired our position in 2019 when the global pulp price was at cyclical lows, and with minimal pulp capacity additions on the horizon sentiment seemed overly bearish.

We were also attracted to the arboreal stability underpinning Stora's balance sheet, given that softwood trees such as pine take 20 years or more to grow to maturity. The company has recently begun to value its forest assets using market transactions as a reference. The total value of €7.3 billion reported at year-end covers 60% of the Stora's market capitalization (and 80% at our entry price).

The effects of the pandemic and lockdown boosted demand for pulp in 2020, as both tissue and packaging for e-commerce volumes surged (the latter likely more permanent than the former). Prices for softwood pulp have almost doubled from their 2019 lows, and Stora will reap the benefits. Pulp from hardwood trees such as eucalyptus, which grow to maturity in just five years and are therefore the key swing factor in global pricing, has seen similar price gains. Suzano, the Brazilian hardwood leader, forecasts demand growth exceeding supply growth by 35% over the next 4 years.

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At quarter-end, our portfolio had 96% upside to NAV, a weighted average P/E of 10.9x, FCF/EV yield of 14.5%, return on tangible capital of 28%, net debt/EBITDA of 1.4x and traded at 8.6 EV/EBIT.

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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 is part of a Luxembourg SICAV that is managed by Pictet. All major banks and private banks should be able to invest directly into the fund. It can also be invested in through both European international central securities depositories:

- Euroclear, through the **FundSettle clearing platform**
- Clearstream through the **Vestima fund clearing platform**

Our fund is registered for distribution in the UK, Spain and Luxembourg including for **retail distribution**.

It can also be found via many other institutions working through the main platforms in which the fund is available upon request:

- **Allfunds Bank**
- **Inversis**
- **Quality Funds**

Currently the following financial institutions are sub-distributors in Spain:

- BBVA, Renta 4, Lombard Odier, Banco Alcala

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.

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 see https://value-spain.com/es/blog/

Tom and family became homeowners in Kent, the garden of England. Congratulations! We all excited to be exiting lockdown and having a few face-to-face meetings outdoors at the pub.

We appreciate your support over the past two years.

Yours faithfully,

Palm Harbour Capital

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