Dear fellow investors and friends,

During the third quarter of 2020 the fund gained 6.47% 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. However, while the Palm Harbour Global Value Fund posted a good quarter, this performance was not enough to make up for the first quarter's results and we ended the first three quarters down 21.07%. Our fund's composition is unlike any index and we are unlikely to perform in a similar manner.

We feel a bit like Bill Murray's character in the 1993 film Groundhog Day, on repeat. As we sit in our London flats on a typical grey raining autumn day, the headlines and market mood are the same: Coronavirus, lockdown? Possibly (not). Vaccine? Possibly (not). Stimulus? Possibly (not). Brexit deal? Possibly (not). The election? Possibly (not).

While market gyrations abound and short-term share price performance seems beholden to the above-mentioned issues, we remain focused on generating long-term performance by investing in high quality, cash-producing companies trading at low valuations. Over time, despite the recent past, this strategy has outperformed, and we do not believe changing our strategy and philosophy would be a wise move. There are a number of extremes building in the system, which we believe are long overdue for mean-reversion. We are very optimistic that our strategy will prove itself in time.

Many have postulated that we are in 1999 again. Besides the obvious tech leadership and eye-popping multiples, there is rampant retail speculation in "hot" sectors and plenty of articles claiming that value is dead, and Warren Buffett is out of touch. Over the past few years, the growth crowd seems to have pivoted from 'growth at a reasonable price' to 'growth at any price'. There has also been a proliferation of spurious 'valuation' techniques that do not utilize anything one might think appropriate such as earnings or cash flows. We haven't a clue if 2021 will bear a

[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.

resemblance to 2000 but as Mark Twain is reputed to have said, “History doesn’t repeat itself, but it often rhymes.”

On COVID, we are mid-term optimistic. While this winter might have many dark days, we believe in the power of human innovation and that either a vaccine will arrive or we will find other ways to get on with our lives returning to normal economic activity and enjoying things we like such as travel, benefitting our portfolio.

However, when COVID has eventually passed us by, we expected there to be some scrutiny of the unsustainable levels of government debt and the massive inequality caused by quantitative easing. Whilst there is some possibility that the global economy booms and tax receipts skyrocket - enabling governments to pay down debt rapidly and raise interest rates to a normalized level to temper inflation and encourage savings and rational investment - we think the probability is low. More likely, we continue on the former path of low growth as we have not allowed a proper recession to rebalance the system through the process of ‘creative destruction’. Governments will try to inflate away their debt loads by debasing their currencies, keeping interest rates too low for too long, which will fuel further inequality, rampant inflation, capital misallocation and an unstable political environment. In either of these situations, a global portfolio of lowly valued but high-quality companies producing strong cashflows that can adjust their pricing to the situation at hand is the most rational investment, in our view.

There were several events in the portfolio during the quarter as well as encouraging earnings reports.

The largest contributor was Esprinet SpA, the Italian electronics distributor, which we wrote about in Q4 2019 and mentioned again in Q2 2020. Early in the quarter, Chairman Maurizio Rota and CEO Alessandro Cattani consolidated their shares in a new company and then purchased an additional 1.2 million shares at €4.40, which was almost 15% above the previous close of €3.83. After the transaction they owned a combined 9.07% of the company. They then signed a shareholder agreement with Francesco Monti, who controls a 16.16% stake in order to renew the company’s board. The company went on to report a very strong second quarter (sales +7%, EBITDA +16% YoY) with a strong unseasonal net cash position. The stock was further helped by increased analyst coverage, which were initiated with very positive reports. The shares ended the quarter at €7.55.

Another significant performer was Gamesys Group, the UK online bingo and gambling company, which we introduced in our Q1 2020 letter as a potential beneficiary from COVID-19. The company reported half year EBITDA up 17% YoY on a pro-forma basis. They also initiated their first dividend, widening their UK investor base, after

Palm Harbour Capital LLP
12 Hammersmith Grove
First Floor 117
London, W6 7AP, UK
info@palmharbourcapital.com

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successfully de-levering the balance sheet. We expect further cash returns to shareholders in the coming quarters.

Danieli SpA, which we introduce in more detail later in this letter, announced a long-awaited conversion of their savings shares (an Italian non-voting, economically similar preference share with a slightly higher dividend entitlement) into ordinary shares. Many investors have been waiting over a decade for this to happen, as most Italian companies eliminated this archaic share class years ago. After initial excitement, upon reading the details we were shocked at the poor terms offered to the minorities. The company proposed to convert the savers into ordinaries at a ratio of 0.65 ordinaries per saver, which was a single digit premium to recent trading. Upon conversion a special dividend would also be paid, which in effect would mean the ordinary shares would receive a higher dividend. The rationale of the low exchange rate was that the savers had historically traded at a significant discount to the ordinaries. We found this logic circular as we believe the only reason for the discount, given that the share classes are economically equivalent (actually slightly better for the savers) and that insiders control the ordinary voting shares in any case, was the fear that the savers would be converted at a poor ratio. We wrote a letter to the Board, which can be found on our website, asking for better terms, which we circulated to other shareholders. We found other shareholders were similarly disappointed. In response, the company improved the offer slightly by proposing to pay the special dividend prior to conversion - but this was too little, too late.

At the Extraordinary General Meeting in October we voted against the proposal, and enough of our fellow saving shareholders agreed with us for the motion to be defeated. We hope to work with the company, the family and other shareholders to find a more equitable solution.

The company also reported its preliminary results for the fiscal year ending 30th June. Whilst showing a decline in earnings driven by weak steel markets, they were significantly better than the market had anticipated.

The final significant contributor to the quarter was Italian electronics and white goods retailer Unieuro, which we will introduce later in this letter. The share price fell from above €13 in February to almost €5 as their stores were shut for a couple of weeks in March. However, they quickly grew their online offering and benefited from work-from-home office and school needs. While their first quarter (March to May – historically the least important quarter of the year) sales fell by 13% (10% like for like) and EBIT fell from €-2.5 million in Q1 2019 to €-11.1 million in the first quarter of 2020, they were able to quickly bring their costs under control and begin to drive revenue growth. This is demonstrated in their preliminary first half report which indicated sales grew by 1.8% year over year or roughly 15% in the second quarter and EBIT was expected to be three times higher than the €6.2 million in the first half of 2019. This implies close to 30 million of EBIT in the second quarter, which would be more typical for the Christmas quarter. The share ended the quarter at €11.28.

As we mentioned in our previous letter, Aryzta AG held a long-awaited Extraordinary General Meeting where a group of shareholders proposed three new board candidates including replacing the Chairman. The group was successful, with a majority of shareholders backing their slate. We now await the board to review the business and strategic options. While no bid was forthcoming for the entire company, a process started under the previous Chairman, we believe this was largely expected as the new Chairman had already indicated that he wanted to review options and restructure. We think there may be more value in selling the North American business, de-levering the balance sheet and turning around the European business from its very depressed state. We hope the board truly assesses all options and seeks to maximize shareholder value.

The largest detractor was Bayer AG. We mentioned in our previous letter that the shares had performed well in the second quarter on the back of a potential settlement in glyphosate litigation. The shares then sold off during the third quarter as the judge asked the parties to renegotiate certain points. Unfortunately, a similar sell-off occurred immediately after the close of the third quarter as Bayer issued a profit warning for the Crop Science division in 2021.

The company blamed lower agriculture prices, a weak Brazilian real and a failure to gain soybean acreage in the United States. We find two of these arguments very weak (at least for an extremely early 2021 profit warning?), while the third has already been partly resolved as we write this letter. We cannot help wondering if the profit warning is being used as a negotiation tactic in the glyphosate litigation and settlements.

The weak commodity price argument is quite bemusing given that corn and soybean futures had fully recovered from their COVID-19 sell off and the USDA had unexpectedly released news of very large declines in corn and soybean stocks that very day. If you add the subsidy given to farmers this year, it will be the best year for US farm incomes since at least 2013.

The Brazilian real is also a mystery as the bulk of Brazilian crops are grown for the (dollar-denominated) export market and with the depreciation of the real, Brazilian farm incomes are at extremely high levels in both dollars and in local currency. Given that they are dollar earners, agricultural inputs in Brazil, while priced in real, are generally adjusted for the currency on an ongoing basis – with a lag of a quarter at most.

The soybean acreage issue was the most genuine, after a court had invalidated the EPA's approval of Dicamba (a herbicide used in combination with Bayer's soybean seeds against glyphosate-resistant weeds) for over-the-top use. The court argued that the EPA had not properly investigated issues with 'Dicamba drift' (running into neighbouring fields). Bayer's competitor Corteva looked set to benefit, having developed an alternative herbicide based on 2,4-D which works with their Enlist-branded seeds. Bayer had said that its market share for 2020 was stagnant (not down). Besides, even if farmers wanted to switch to the Corteva product (and we have seen little evidence of that so far), Corteva has only a tiny inventory compared to total soybean acreage, and there would not have been enough time for Corteva to grow more seeds for next year - so Bayer would not have lost out in 2021. The EPA this week extended the use of Dicamba for another five years, rendering this point moot. In any case, by 2023 Bayer should have a 'super-product' in soybean seeds, offering combined resistance to the crop-protection chemicals glyphosate, glufosinate, dicamba, 2,4-D and HPPD.

We have a small position in a company active in the sports rights management business. The controlling shareholder is proposing to take the company private. While it is at a premium to the share price prior to the offer, it drastically undervalues the business. We think they are taking advantage of the COVID-19 situation to buy the shares on the cheap. We are engaging with the independent members of the board and hope to improve the offer terms.

One disappointment during the quarter was the capital raise (without subscription rights) by one of our small portfolio holdings in the hotel industry. While we had not ruled out the possibility of them doing a capital raise, both the size and timing surprised us. We feel this is perhaps due to the relatively low insider holdings of management. We knew this was a risk but misjudged the probabilities. The company had a very strong balance sheet with very low cash-burn, and we thought they could easily make it another year or more without the need to raise cash. They also are large owners of their real estate portfolio and had already done a sale and leaseback on one property on very attractive terms during the pandemic. We were surprised that they did not try to do this again. They claim they want to use the cash to take advantage of the market downturn, but we would have preferred not to have been diluted and for them to have waited until a clearer picture could be drawn.

Another notable event was a tender offer for €47.5 million worth of shares of ASTM SpA, which we introduced in our Q2 2020 letter. Mercure Investments, which is controlled by the infrastructure investors Ardian, offered to buy the shares at up to €21 euros per share, a premium of 21.6% over the previous close of €17.27. Ardian owns a 40% stake in Nuova Argo Finanziaria SpA, which owns 43% of the capital of ASTM SpA. The remaining 60% is owned by Aurelia SpA, which also owns a direct stake of

7.73% and which is owned by the controlling Gavio family. Similar to Esprinet, we take some comfort from knowledgeable insiders increasing their stake at above market prices.

At quarter-end, our portfolio had slightly over 131% upside to NAV, a weighted average P/E of 8.5x, FCF/EV yield of 17%, return on tangible capital of 34%, net debt/EBITDA of 1.4x and traded at 8.7x EV/EBIT.

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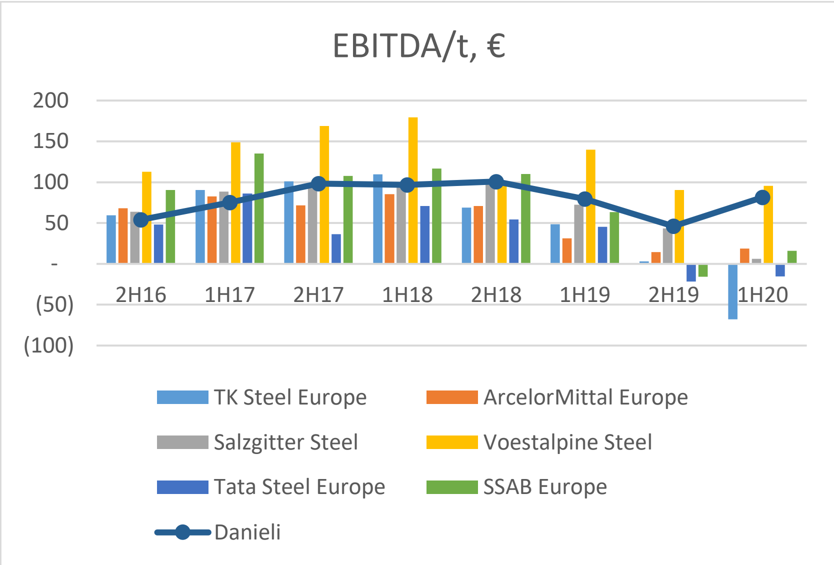
Danieli & C. Officine Meccaniche S.p.A. (DANR IM)

Danieli is a family-controlled Italian company that builds steel plants for others as well as producing its own steel.

Plantmaking is usually about two-thirds of Danieli's earnings. The steel plantmaking market is dominated by three firms: Danieli, SMS Group (a private German company), and Primetals (owned by Mitsubishi and Hitachi). The companies design and produce complete plants as well as the various pieces of equipment required within them. Danieli's range covers the whole process from iron ore treatment to cold-rolled products. This includes furnaces, rolling mills and robotics, making it a knowledge-intensive IP-heavy industry. Danieli is strongest in electric arc furnaces (EAFs), as opposed to basic oxygen furnaces (BOFs). EAFs are smaller and cheaper to build than BOFs, and are expected to see more demand growth going forward as China's economy matures and the supply of domestic scrap metal (a key EAF input) moves toward developed market levels. EAFs are significantly more environmentally friendly than BOFs, too. As the steel industry looks to 'go green', Danieli is well-placed to serve as a leader in innovation and has developed systems to integrate hydrogen into the steelmaking process. The company's plant making backlog is €2.7bn (~1 to 2 years' worth of work), providing good visibility. Its projects were hampered somewhat by Covid-related travel restrictions, but because it has a globally distributed project team these effects were more muted than seen at similar companies.

The remaining third of Danieli's earnings comes from its own production of steel. With two mills in Italy and Croatia, Danieli produces high-end flat steel for the engineering and automaking industries. The business quality is not as high as in plant making, but this is still a consistently profitable steelmaking unit. From 2016 results have been burdened by a troublesome pipe-making plant in Germany, which was disposed of this year. In 2H19 and 1H20 several of Danieli's peers entered loss-making territory in their European steel operations, and all but Voestalpine made significantly lower per tonne earnings than Danieli.

Palm Harbour Capital LLP
12 Hammersmith Grove
First Floor 117
London, W6 7AP, UK
info@palmharbourcapital.com



With a strong position in an out-of-favour sector, the clincher for us is the company's deeply discounted valuation. With a net cash position of €900m at the 30th June, its enterprise value today is negative. There are good reasons for Danieli to suffer a punitive corporate governance discount, but to this degree seems excessive.

Unieuro (UNIR IM)

Unieuro is Italy's largest electronics retailer, operating out of 509 stores across the country. Like Best Buy in the US or Dixons in the UK, it sells white goods, home entertainment, computer equipment and mobile phones, as well as lucrative extended warranties. Its competitors fall into three categories: online-only, independent stores organised into buying groups, and MediaWorld (part of German retail group Ceconomy). The buying groups have been market share donors to Unieuro for years; the Euronics, Trony and Expert buying groups operate as unified brands but suffer from having non-unified logistics. MediaWorld has underperformed in recent years too, losing its number one position as Unieuro expanded its store network (its stores are smaller and more centrally located than MediaWorld's big box out of town superstores).

E-commerce penetration in Italy is some way behind the Anglo-Saxon countries, and pre-Covid almost 90% of Unieuro's sales were made in-store. The company seems able to co-exist with Amazon, with a policy of matching their prices. Pure e-commerce is hard in Italy – online-only competitor ePrice, once a darling of Italian growth investors, has seen its sales plummet at an 18% CAGR over the last three years. Unieuro has played it slow and steady and was fortunate that the timing of Covid-19 came shortly after the completion of a new warehouse and a stronger omni-channel approach.

Palm Harbour Capital LLP
12 Hammersmith Grove
First Floor 117
London, W6 7AP, UK
info@palmharbourcapital.com

The company has been a clear beneficiary of the increase in working from home as people kitted out their homes with office equipment. Because of its stores being physically closed during the height of Italy's lockdown it reported a 13% sales decline in the three months to 31st May, but this was followed by a 15% leap in the three months to 31st August (with grey goods – A.K.A. home office equipment up 20%). The company has no net debt (although it has leases), and we think is capable of producing €50-60m in normalised free cashflow. Despite the share price rallying by 38% in the quarter we are happy to hold as the free cashflow to equity yield is still above 20%.

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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. 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 will share more details soon and update our website with more details.

Our London Business School intern Bharath Nagaraj, who worked with us for over a year, was hired by Berenberg in equity research. Congratulations Bharath!

We appreciate your support over the past year.

Yours faithfully,

Palm Harbour Capital