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April 9th, 2020

Dear Investors,

During the first quarter of 2020, our portfolio was down 17.7% in Canadian dollars, net of fees. The quarter was characterised by unprecedented drawdowns in global equity markets and volatility we've not seen since the financial crisis of 2008/09. Broad equity indices in Europe finished the quarter down 24% and small and mid-cap indices were down 28%[1] after peak to trough drawdowns of 36% in under one month.

Despite the drawdown in the portfolio, I am pleased that we stuck to our strategy in the quarter. I opportunistically added to existing positions in the portfolio as prices became detached from value and initiated three new positions in businesses I know well at prices I believe embed long term returns consistent with our mission. In total, we increased exposure from 41% of the portfolio at December 31st to 67% as of March 31st. The table below gives you the usual summary of our exposure, performance and attribution by strategy bucket.

Gross Exposures and Attribution by Strategy	Exposure	Q1 2020 Performance	Q1 2020 Attribution	YTD Attribution
Core Value Equity	61.3%	-19.7%	-12.4%	-12.4%
Special Situations Equity	5.6%	-53.3%	-5.3%	-5.3%
Total Equity	67.0%	-24.3%	-17.7%	-17.7%
Hedges	0.0%	0.0%	0.0%	0.0%
Cash	33.0%	-0.1%	0.0%	0.0%
Total Portfolio	**100.0%**	**-17.7%**	**-17.7%**	**-17.7%**

It is a truism that, as an investor, you make most of your money in a bear market, you just don't realise it at the time. As such, I was hard at work in the quarter. I did preliminary reviews on twelve potential target companies, of which three have become investments. All three of these new investments are in companies I knew from my prior experience as a senior analyst at MSD Capital, which helped to expedite the work as prices moved quickly in our favour. I also spent considerable time assessing the balance sheet strength, fixed costs and corporate resiliency of our existing holdings to the ongoing economic shock stemming from the Covid-19 coronavirus pandemic (Hereafter, shortened to "C-19"). The preliminary conclusion is this: our discipline of requiring portfolio companies to have strong balance sheets – preferably net cash – and highly profitable underlying businesses has served us well. I believe our portfolio is well placed to weather this economic storm, a subject I return to in more detail in the portfolio update section below.

I had hoped to use this letter to discuss Highwood's investment strategy: a more detailed analysis of what it is and why I believe it provides us the best chance of executing our mission successfully, which of course is to turn each dollar of invested capital into five dollars over ten years without taking undue risk. However, given the emergence of the C-19 pandemic, the resulting equity market drawdown and economic hard-

[1] MSCI Europe and MSCI Europe SMID Cap Indices respectively, in USD.

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stop, it is right and proper that I prioritize giving you every bit of transparency I can on my thoughts and approach to this issue and the expanding opportunity set emerging from it. I will endeavour to do this by first laying out a few relevant facts about the crisis, then outlining the basics of my approach in light of those facts. Third, I will touch on the tools we have at our disposal for the execution of our mission in this environment and finally, an analytical example of how the C-19 crisis is affecting business values (as opposed to prices), which I hope will serve to clarify some of the variables I am focused on, which may be of interest to you.

COVID-19: Facts, Approach & Tools

The economic shock resulting from the C-19 pandemic is unlike any economic shock developed market economies have seen in at least a generation. At the current run rate, economies under government-imposed lock downs are seeing GDP down 25-35% year over year and unemployment rates spiking to c.15%[2]. These figures mask the fact that large swathes of the private economy are seeing significantly larger declines in their revenue, as GDP figures include government spending. What is more, this comes after a 10-year period in which central banks have supressed interest rates to encourage capital reformation financed by debt across the private market economy. As an indication of this, total US corporate debt in non-financial sectors was $15.5 Trillion at the end of 2019, or 74% of US GDP, above the level prior to the 2008 financial crisis[3], while underwriting standards have deteriorated since that time[4].

The good news is that this economic shock is, at least for now, the result of conscious government measures to control the spread of C-19, and so, it is under our collective control to relax those measures when it is deemed safe to do so. This is a self-imposed economic hard stop. The question then becomes, just how long it will take to get C-19 under control, what the damage is in the interim, and how the economy will respond when the measures are relaxed. So, in its initial set-up at least, this dynamic suggests a tremendous opportunity as a long-term, fundamental value investor in high quality businesses that will weather this storm. That is my broad perspective, however, the losses incurred by companies and resulting run-up in their balance sheet leverage as a result of C-19 depends on how long it takes to get the virus under control, the extent of their fixed cost coverage in the interim and a range of other factors that, as a fundamental investor, I am working to assess. These are the variables that are eroding equity value in businesses across the economy. What is clear is that many poorly capitalised or unprofitable companies will not survive this phase, but for the high quality, well capitalised businesses that do, the operating environment will present new and perhaps greater opportunities than existed before the crisis. Chief among these will be a reduction in competition and the potential to take market share as weaker competitors exit the market.

That said, while I remain open to more optimistic scenarios, there is a real probability that we are not going back to the way things were prior to C-19 anytime soon. In my view, the progression of our globalised economy back to what it was requires a change in our collective perception of the risk of infection and our ability to manage this risk without having to resort to large scale, economically damaging lock-downs in

[2] Goldman Sachs estimates as of March 31, 2020
[3] IMF, Global Debt Database, as of Dec 31, 2019.
[4] www.oecd.org/corporate/Corporate-Bond-Market-Trends-Emerging-Risks-and-Monetary-Policy.htm

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response. This probably requires either a widely available vaccine or herd immunity. A robust system of testing and contact tracing coupled with healthcare capacity to manage infections effectively will likely come before either of these in many economies, but it remains an open question whether this will shift the perception of risk sufficiently such that individuals go back to life as before and companies go back to investing as before. Meanwhile, I am mindful of a number of risks as well as second order effects of C-19 that have the potential to create a more vicious cycle. To name but a few: What proportion of the businesses that close will simply never come back and hence, what is the impact on unemployment and consumer demand, two or three years out? Furloughed employees are accessing loans that will need to be repaid or depleting savings that will need to be rebuilt, both processes that will weigh on demand for consumer goods and services as we emerge from C-19 – the question is just the length and duration of this recovery phase. At this point, governments are stepping in to cushion the impact with unprecedented fiscal and monetary support, but, as there is no free lunch, who will ultimately pay for this? Will it be higher tax rates down the road? Or, will the cost be borne by government bond holders, either by default or higher inflation?

I believe a word about investor psychology is appropriate at this point. In moments of stress and uncertainty such as these, the human mind tends to do two things. First, it tends to anchor on the worst-case scenario. Second, the mind tends to start thinking in shorter term increments: today, tomorrow, next week rather than two or three years out. My job as your portfolio manager is to be aware of these biases in myself and others and do my best to counteract them[5]. In many ways, this is the chief job of the experienced investor, and requires an awareness of the many possible outcomes given these initial conditions, both positive and negative.

That said, the decision to allocate capital or not, and into which securities is always made under conditions of uncertainty. Here the greatest tool at the Firm's disposal is a laser focus on our mission and the disciplined application of our value-oriented strategy. As a concentrated investor, we are not spreading our capital across a wide swathe of companies – many of which have weak balance sheets and weak business models that will go bankrupt from this shock, and would dilute our overall return. As an investor with a long-term approach, we are able to focus on the earnings power of the business in the medium term in a more normalised environment, rather than chasing our tails about whether the market will go up or down in the short term. Our fundamental approach allows us to assess the change in intrinsic value of the underlying business we have partial ownership in and the gap between that value and the price at which sellers are offering those securities for sale at. And, as an opportunistic investor, we are not forced buyers and will only allocate capital when and if the security in question offers the prospect of moving us closer to our mission, which is turning one dollar of invested capital into five dollars over a ten-year period without taking undue risk of capital impairment.

I would also add to these tools our discipline to underwrite the value of securities conservatively. Businesses are in a new and different world, which I think is most easily demonstrated by the following simplified example. Take a 10% margin business which has 30% of sales as fixed costs and entered into

[5] If you are interested to know more, please pick up 'Thinking Fast and Slow' by Kahneman, or for a briefer insight, 'The Little Book of Behavioural Investing' by James Montier.

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this crisis with Debt/profits of 1x. If demand drops to zero (think restaurants, hotels[6], casinos, airlines, retailers), said business will be loss making at the rate of 30% of sales per annum. If their banks support them (a big if) and the C-19 economic 'hard-stop' lasts 1 year, they will run up debts with their bank of 3x normalised profits (30% losses / 10% normalised margin) and emerge from this crisis with debt/normalised profits of 4x – and considerably more compared to more recent profits. If it takes 18 months, the figure is 5.5x debt/normalised profits and in my view the company is now largely working for the bank rather than long term shareholder value. Add to this balance, any receivables that will go unpaid, any commitments (eg. Un-earned revenue, capex, acquisitions, hedges) they had going into the crisis and it becomes clear how quickly debt can pile up and equity value can be eroded. This is a highly simplified example, but I think it serves to illustrate the point that the C-19 crisis is damaging equity value in businesses and will continue to do so. I believe a careful, conservative approach to this assessment, coupled with years of experience in the application of our strategy is what will protect our capital.

Portfolio Update

As usual, the table below summarizes some useful headline statistics on portfolio, and how they have changed from one quarter ago.

Highwood Value Partners Portfolio						
As of Date	% Invested	Median Price / Est. Intrinsic Value	Median Market Cap, in Mns of USD	Median Net Debt (Cash) / EBITDA	Median EV / Sales	Median P/E
31-Dec-19	41%	0.54x	550	-0.8x	1.6x	15.1x
31-Mar-20	67%	0.44x	332	-0.9x	1.1x	10.6x

In light of the foregoing example and my comments in the introduction to this letter, these statistics deserve some discussion.

Firstly, our portfolio companies have strong balance sheets on average – they are in a small minority of companies run by management teams that did not answer the siren song of credit at low interest rates. Four out of five of our non-financial holdings either have net cash balance sheets or all debts backed with cash on the other side of the ledger. Median net debt / EBITDA across our portfolio is -0.9x. This is in stark contrast to the European equity market as a whole, where just 14% of the 300 largest non-financial companies have a net cash position and Net Debt / EBITDA is an average of 2.5x[7]. The contrast is even more stark vs the Canadian equity market, where the average Net Debt of the 300 largest non-financial companies is 3.3x EBITDA. The exception to our tendency to hold businesses with net cash balance sheets is our holding in Alimak, which has a low level of debt (1x EBITDA) and a dominant market position with a high degree of recurring revenue from its profitable service business. On a more holistic level, I feel comfortable with this level of leverage. This balance sheet strength across the portfolio makes it much

[6] An interesting side note: what conflict of interest does this present when the President of the United States has the vast majority of his wealth invested in an upscale hotel chain?
[7] S&P Capital IQ

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easier to look through this crisis as an investor, and it also puts our businesses on the front foot for market share gains when things do normalise.

Secondly, as you know our portfolio consists of either 'core value' or 'special situation' equity investments. Core value makes up about 90% of our exposure as of March 31st. In this bucket, without exception we own businesses that are either cost leaders in their industry or businesses with dominant market positions and often both.

Finally, you will see that the median price / value of the portfolio has improved from 0.54 cents on the dollar of assessed intrinsic value to 0.44 cents on the dollar. This is the result of two factors: First, the 24% decline in the price of the securities in the portfolio (which gets you to 0.41x value) and second, a 10% decline in my assessed intrinsic value across the portfolio, due to the affects of C-19. In other words, we now own these businesses at a larger discount to what they are worth, after considering the impact from C-19, than we did as at December 31. As such, I believe we have a higher embedded prospective return in the portfolio compared with what we did at December 31st despite the effects of the current crisis. These three facts, taken together, help me to sleep easier at night!

What follows is a more detailed assessment of each of our holdings in light of the C-19 crisis.

Ryanair – Core Value

Being an Airline, Ryanair is clearly at the center of the economic damage caused by the coronavirus crisis. On March 16, in response to the crisis, the company announced they would reduce seat capacity by 80%, with the potential of the full grounding of the fleet for a period. As of the writing of this letter, they have grounded over 95% of their fleet. On the positive side, Ryanair has the benefit of having the lowest costs in the industry and a very strong balance sheet, which has seen them weather and ultimately benefit from crises in the past. This time around the crisis is orders of magnitude more severe, and the company is well positioned with €4bn of cash on the balance sheet and fixed costs of c. €1.2bn annually, which means even in the scenario where revenue is zero, the company should be able to fund operating losses for over three years without having to borrow any more money. Previous crises have been good for Ryanair in the long term as they are able to take market share as weaker airlines collapse, sell or retrench. We are seeing the tip of this iceberg at the moment: Flybe, which accounts for c.30% of intra-UK capacity has filed for bankruptcy and Norwegian Air ASA, which is the dominant short haul carrier in the Nordics, entered this crisis highly indebted and barely profitable. This is an almighty crisis for European airlines and therefore presents a commensurate opportunity for Ryanair to take market share as we emerge from the crisis. While painful in the short term, it seems likely that this crisis may accelerate Ryanair's dominance in European short-haul travel.

Standard Drilling – Special Situation

Standard drilling owns ships, which it has bought from distressed sellers at distressed valuations, and has net cash on the balance sheet. The company has the ability to flex capacity opportunistically – either a ship is on contract with an end supplier, or they can lay the vessel up and cut operating costs to c. $300,000 per vessel/annum to keep it warm and ready for when there is a contract. The company bought an additional vessel in the quarter, pro forma for which the company had net cash of $21mn. This balance sheet would

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allow the company to fund losses for many years if it had to. On the negative side, the supply of and demand for Platform Supply Vessels in the offshore oil and gas industry has been pushed out in time as the price of oil has declined. Against this, management has pivoted to be able to sell PSV ships into other non-oil and gas markets (such as offshore wind maintenance, dredging etc.) and the equity is now trading at 0.3x book value – which means that the upside to book value is now c.3x invested capital from the current level.

Alimak – Core Value

Alimak manufactures, sells and then services industrial elevators on long term contracts and is the only non-financial company in our portfolio with net debt. The profits from servicing its installed base have been tested in previous crises and remained resilient. The company has 1.2x Net Debt / EBITA, an undrawn revolver and cash on hand that together cover annual fixed operating expenses 2x over. While the company does have debt on its balance sheet, it has a very defensive cash flow from servicing its installed base of industrial elevators. While this crisis will be different to previous ones, it is worth noting that profits from the aftermarket division kept growing through the 2008/09 financial crisis. At the current market price, if we capitalise the aftermarket profits at 18x earnings, we get the entire Original Equipment (OE) business which accounts for 64% of the group's revenue for free.

Protector Forsikring – Core Value

Protector is the Nordic Property & Casualty insurance company with a large and growing float. While it is very likely that the company will suffer an operating loss this year given the mark to market of its investment portfolio, the company is well capitalised to manage this. In 2017 when times were rosier, the company entered into a long-term 'solvency re-insurance contract' which allows it to put balance sheet risk to a large re-insurer in the event losses threaten the company's solvency capital ratio (SCR). In effect, management bought a low cost put option on its own balance sheet to cushion any effect of, what it termed at the time, a 'financial crisis 2.0'. That is looking like prudent insurance at this point and I think reflects the overall conservativeness of the management team in charge. At current prices, the equity in Protector is trading at tangible book value of the insurance operation, which means we get all the earnings on the float, which is currently 4x the market cap and growing for free.

Vestas Wind Systems – Core Value

Vestas is the global market leader in the manufacture and service of wind turbines. The company is the most profitable in the industry and has the strongest balance sheet, with over €2bn of net cash. Although I expect new orders for wind turbines to slow in the short term with conventional energy prices where they are and if credit markets make it more difficult for developers to finance new projects, the company has a €34bn orderbook that, at the current run-rate is 3 years worth of revenue. It is also well positioned to take market share as some of its smaller competitors have stretched balance sheets, which makes them less attractive counterparties for developers in the current environment.

New positions:

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In the quarter, we initiated three new positions: Berkshire Hathaway, JZ Capital Partners and a to-be named UK midcap company. Once we have finished building our position in the to-be named UK midcap company, I will feel more comfortable disclosing its name and a bit more about the rationale for owning it. I provide an outline of the new positions below.

<u>Berkshire Hathaway (B Shares) – Core Value</u>

We initiated a position in Berkshire Hathaway as the C-19 induced panic in the stock market got into full swing. I view this position as an anchor to our portfolio that provides a minimum hurdle rate of return, against which all other existing and prospective investments should be measured. In Berkshire, we own a diversified set of high-quality businesses at 11x their collective underlying earnings (a 9% earnings yield), plus $125bn of cash in the hands of the best investment duo in a generation, in the midst of a market dislocation. To put the optionality of this cash in context, if Warren and Charlie decide tomorrow to use all but the $20bn in cash they consider 'permanent escrow' to buy back shares in Berkshire at 1.1x Book Value – c.$185/B Share – the book value per share of Berkshire would increase by 27%, and we would go from owning it at 1.1x book today to 0.87x book.

The portfolio construction aspect of this decision deserves some further analysis. In making shares in Berkshire a kind of opportunity cost anchor, I am choosing to have all ideas I generate compete with Berkshire Hathaway for our collective capital, and I believe our investment in Berkshire will deliver us a low-risk low-teens IRR over the long term. I am weighing up the tension between having cash that is readily convertible at 100 cents on the dollar of value in just about any scenario and compounds at precisely 0.25% per annum versus a liquid shareholding that can vary in the price it is convertible at and is compounding value at 8-10% per annum. The nature of compounding being what it is, the further we look out into time, the better this trade-off looks. Berkshire is not a bond, but if we take a conservative view vs its history, in two years, the price of the shares could trade at a further 16 percentage point discount to fair value and we would be no worse off versus having held cash. Also, by holding BRK in this function, we have the optionality that if the shares were to trade back to closer to fair value we are also better off. The situation where we are worse off is if I decide to sell Berkshire shares at a loss to fund new investments. With this in mind, I have sized the position in Berkshire to leave sufficient cash in the portfolio for such an event.

<u>JZ Capital Partners – Special Situation Equity</u>

JZ Capital Partners is a UK listed closed end fund trading at more than a 50% discount to the appraised Net Asset Value of its holdings, or NAV, and I think it highly likely that the fund will wind-up within the next 2-3 yrs. If this happens, we stand to make the difference between our purchase price of the units and the prices achieved in the sale of the underlying assets less costs – a number which is best approximated by the current NAV – over that 2-3 years. The fund is well diversified: it holds private equity investments in 41 US and European small cap companies and 61 real estate investments in the US with its largest single investment worth 7% of the NAV. Monetizing this discount to NAV is now very much in the interest of the manager, Jordan Zalaznick Advisors Inc, as its principals own 26% of the fund directly and are in no position to earn carried interest on the fund from here. So far, the manager is moving in this direction with a commitment to sell 50-60% of the fund's assets by February 2023 and return this capital by way of a

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tender offer to shareholders at no more than a 5% discount to NAV. The price of our shares in this holding have been particularly weak in Q1 – down by 51% from our purchase price – such that we now own this at 25 cents on the dollar of NAV, which embeds a very attractive 2-3yr IRR if assets are sold at NAV and capital returned to shareholders.

To be named UK Mid-Cap – Core Value

Finally, I initiated a new position in a UK listed Mid-Cap company that sells its product at a c.35% discount to competition while earning superior returns on capital. It is taking market share rapidly as a result and has the potential to continue to allocate significant amounts of capital organically at this high rate of return over the coming years. The company has net cash of over 25% of market cap and we own the equity at less than 10x normalised EBIT. I look forward to updating on this position in our next letter provided we are able to get a full position.

Business Update

I have spoken directly with most clients over the course of the first quarter. I invite and value this kind of dialogue. It is a strength of the business that we have a direct relationship that provides you with full transparency and access to the person who is making decisions on your behalf. I believe the value of this becomes more apparent at moments such as these.

Our interests are well aligned – over 75% of my investible assets are in the Highwood Value Partners portfolio – which makes it easier to speak plainly and openly about my approach and what is happening in the portfolio. I have set the business up to operate like a partnership of principals rather than as an agent, which simplifies our discussion and sets up the right incentives as discussed in my last letter.

Thank-you for your additional contributions in the quarter. The business continues to grow and take on new clients. If you know of someone who you think would be interested in our mission and strategy, please don't hesitate to get in touch with me.

As always, I value your support and welcome your comments.

Sincerely,

D. K

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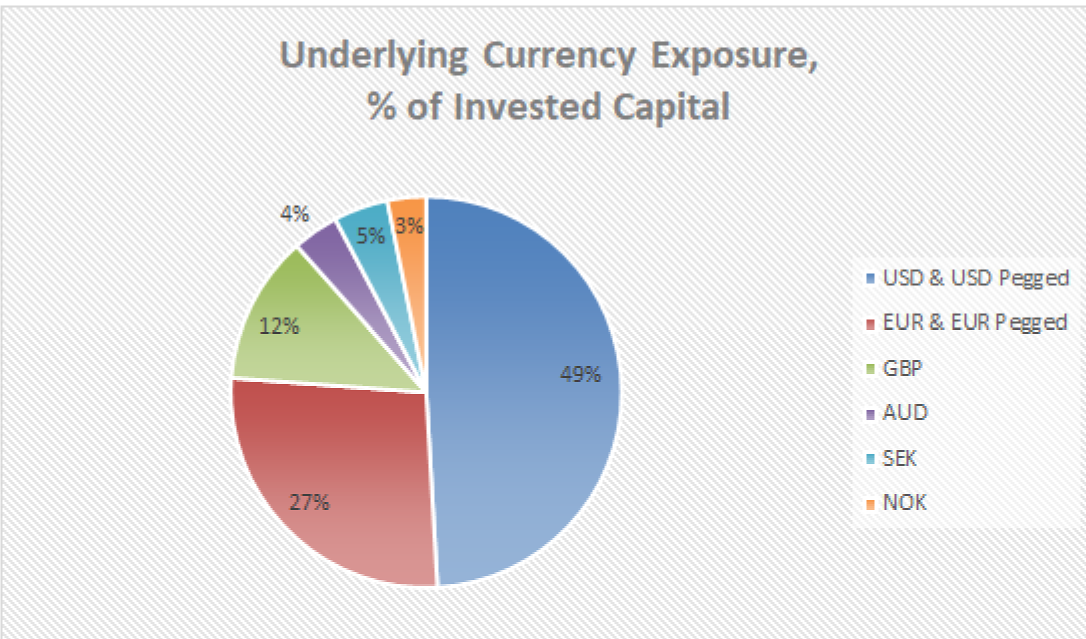
Appendices

Underlying Currency Exposure Split

This is not a breakdown of the listing currency of our holdings. It is the split of the currencies our portfolio companies earn their revenues in. As such, it is the underlying exposure to currencies you have through your partial ownership of these businesses. As investors can choose whether to have their account in USD or CAD and hence their cash balance may be in either USD or CAD, I have expressed the currency exposure as a percent of invested capital.



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The information presented in this Letter is not investment advice, should not be relied on as such, and should not be viewed as an investment recommendation by the Firm or Mr. Kingsford generally, or an offer or a solicitation of an offer for the purchase of any securities. Recipients should not make any investment decisions based on the information contained in this Letter. Only (i) an "accredited investor" as defined under section 1.1 of National Instrument 45-106 - *Prospectus Exemptions*; and (ii) a "permitted client" as defined under section 1.1 of NI 31-103 may invest with the Firm. This Letter is presented solely to illustrate the Firm's investment process and strategies as of the date indicated on the cover page of this Letter and is based on information provided by management of the Firm as of such date and on beliefs, assumptions, expectations and/or opinions of management as of such date. Certain information contained in this Letter may have been obtained by management of the Firm from third parties and, although believed to be reliable, has not been independently verified and its accuracy, timeliness or completeness cannot be guaranteed.

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Certain statements contained in this Letter may be considered "forward-looking information" and "forward-looking statements" (collectively "forward-looking statements") within the meaning of applicable Canadian securities legislation. All statements, other than statements of historical fact included herein, without limitation, statements relating to the Firm's future financial performance and investment returns, are forward-looking statements.

Forward-looking statements are frequently, but not always, identified by words such as "expects", "anticipates", "believes", "intends", "estimates", "potential", "possible", and similar expressions, or statements that events, conditions, or results "will", "may", "could", or "should" occur or be achieved. Forward-looking statements in this Letter include, among other things, statements relating to: the desire to generate outstanding investment results with low risk; the proposed timeline for the Firm's investment horizon and Mr. Kingsford's career; the benefits of operating the Firm out of Whistler, British Columbia as opposed to a more traditional investment market; Mr. Kingsford's beliefs regarding the necessary components to investment success; the future operating or financial performance of the Firm and the assets managed by the Firm; the intention to prioritize long-term investment return over short-term results; the intention to take on more capital only where the Firm believes it will not dilute investor returns; the intention to maintain a fee structure that incentivizes manager performance over asset gathering; the intention to maintain the Firm's current strategy and vision as it grows; the potential to provide a fund structure in addition to the SMA approach in the future; the Firm's mission to compound each dollar of invested capital into five dollars over a ten-year period without taking undue risk; the belief that a short term quarterly or annual results focus is harmful to long-term returns; the Firm's beliefs with respect to how risk is properly defined and mitigated; the Firm's beliefs as to how returns may actualize; the beliefs of the Firm and Mr. Kingsford regarding the prospective results of specific investments of the Firm; the theories and beliefs disclosed regarding what makes an investment strategy successful; and the expectation and plans for growth . Actual future results may differ materially. There can be no assurance that such statements will prove to be accurate, and actual results and future events could differ materially from those anticipated in such statements. Forward-looking statements reflect the beliefs, opinions and projections on the date of this Letter and are based upon a number of assumptions and estimates that, while considered reasonable by the Firm and Mr. Kingsford, are inherently subject to significant business, economic, competitive, political and social uncertainties, many of which are beyond the control of management. Many factors, both known and unknown, could cause actual results, performance or achievements to be materially different from the results, performance or achievements that are or may be expressed or implied by such forward-looking statements and management of the Firm have made assumptions and estimates based on or related to many of these factors. Readers should not place undue reliance on the forward-looking statements and information contained in this Letter concerning these assumptions.

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