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October 15th, 2020

Dear Investors,

During the third quarter of 2020, our portfolio was up 13.3% in Canadian dollars, net of fees. Year to date, we are now up 2.9%, which is 9.1% ahead of the broader index[1] with 73% of the exposure.

The performance in the quarter was driven by our Core Value equities bucket, which was up 21.5% and now comprises 65.8% of our portfolio. The prices of our Special Situations positions remain broadly where they were at the end of Q2 and make up 7.2% of the portfolio. The table below gives you the usual summary of our exposure, performance and attribution by strategy bucket.

Gross Exposures and Attribution by Strategy	Exposure	Q3 2020 Performance	Q3 2020 Attribution	YTD Performance	YTD Attribution
Core Value Equity	65.8%	21.5%	13.2%	14.0%	8.8%
Special Situations Equity	7.2%	1.9%	0.1%	-61.4%	-6.1%
Total Equity	73.0%	19.3%	13.3%	4.0%	2.9%
Hedges	0.0%	0.0%	0.0%	0.0%	0.0%
Cash	27.0%	0.0%	0.0%	0.0%	0.0%
Total Portfolio	**100.0%**	**13.3%**	**13.3%**	**2.9%**	**2.9%**

In my last letter to you, I discussed the aspects of our strategy that I believe differentiate us from the majority of investors, and why our approach is well suited to our mission. In that letter, I walked you through the kind of companies we look for in the Core Value 'bucket' of our portfolio. In this letter, I propose to continue the broad dialogue regarding our strategy. Now that you have, I hope, a clear understanding of the kinds of companies we are seeking out, I will take some time in this letter to focus on where we are most likely to find them. Finally, rather than updating you on broad issues related to Covid-19 as I have done in my Q1 and Q2 letters, I will give you an update on our individual holdings with a focus on how they are being affected by Covid-19, both positively and negatively. I encourage you to read that section for a more granular view of how the pandemic is affecting our businesses.

<u>Fish where the fish are</u>

The first rule of fishing is to fish where the fish are. The same is true for the kind of investing we carry out here at Highwood. Our mission is of course to turn each dollar of invested capital into five dollars without taking undue risk. We are looking to achieve that aim by finding and investing in a select number of great businesses at attractive prices that will earn multiples more than they currently do on a per share basis over a five to ten-year period. These are true 'alpha opportunities' in industry parlance, and are the equivalent of trophy fish. As the firm's name is a nod to the Highwood river in south-western Alberta, perhaps these opportunities are best thought of as trophy rainbow trout. The analogy ends there, for while I practice catch and release in fishing, I prefer buy and hold when it comes to investing.

[1] MSCI Europe in CAD was -6.1% YTD as of September 30, 2020

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So, where are these true 'alpha opportunities'? As the definitive answer to that question is unknowable without the passage of time, our best insight into this question is assess where these great investment opportunities have been in the past, and learn from that where they are most likely to be right now.

Let's start with the universe of opportunities. There are 8,160 listed companies with a market cap greater than $200mn and domiciled in the developed markets of North America, Developed Europe and Australasia. I exclude 3,660 of these businesses because the largest variable that determines their medium-term free cash flow is a forecast of commodity prices or interest rates, which I prefer not to have to rely on in my assessment of the value of their equity. A further 950 companies are loss making, which places them more in the realm of the venture capitalist than the disciplined value investor. This leaves an investible universe of 3,550 listed companies that are domiciled in countries with laws and corporate governance I understand and can rely upon and whose businesses can be valued with an acceptable degree of certainty.

Now, our goal in the Core Value bucket is to find and invest in those 'true alpha' opportunities that move us closer to the goal of growing our capital by 5x over 10yrs without taking undue risk. Therefore, we are interested in those situations that delivered shareholder returns at least that good: let's say a total shareholder return (TSR) of at least 300%, or 3x money over a five-year period. Out of our universe of 3,550 listed companies, there were 221 companies that achieved this over the five years ending Q2 2020. That is just 6.2% of the investible universe.

So, where were these 'true alpha' opportunities hiding? Firstly, 174 of them, or 78% of the total were Mid and Small Cap companies, that is, companies between $200mn and $10Bn in market capitalisation. So, for all the talk of the outstanding returns delivered by big-cap tech stocks, there were nearly 4x more 'true alpha opportunities' in the mid and small cap space than in the large cap space. Secondly, almost all of these opportunities (96%) were outside Canada, the vast majority of them (71%) were outside North America and there were materially more of these 'true alpha' opportunities in Europe than in any other region. Fully 102 or 59% of the mid and small cap companies that delivered these returns were listed and domiciled in Europe. What is more, Europe over-indexes in these opportunities given that European companies made up 41% of the investible universe of 3550, but 59% of the winners that delivered at least a 3x return to shareholders over the period.

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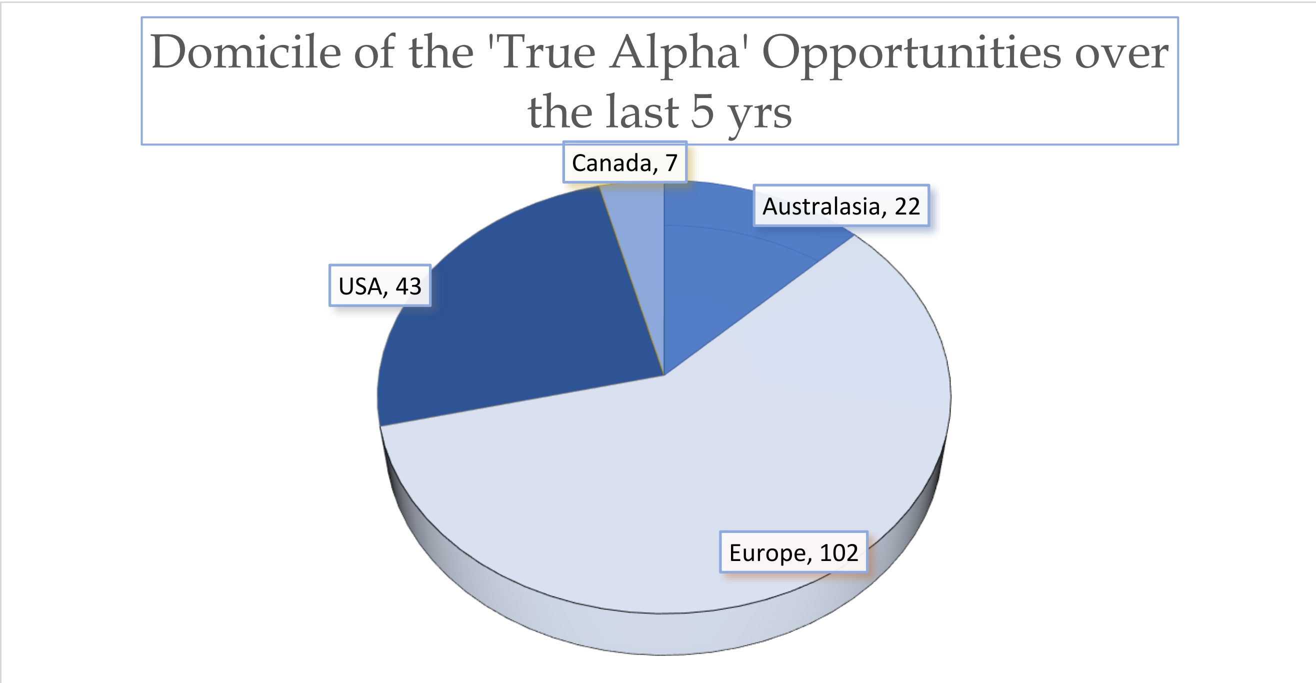

Moreover, these statistics have been consistent over time. The following table summarizes the same statistics over all six of the 5yr rolling periods going back to 2010. Between 81% and 86% of all the companies that did at least 3x money for their shareholders in any 5yr period going back to 2010 were in mid and small cap space. Likewise, nearly all of these were outside Canada and the single largest majority were listed and domiciled in Europe.

Number of companies with TSR>300% by domicile	2015 - 2020	2014 - 2019	2013 - 2018	2012-2017	2011-2016	2010 - 2015
Australasia	22	19	23	31	21	20
Canada	7	9	17	18	17	20
Europe	102	99	169	236	99	141
USA	43	47	74	84	50	123
Total Small & Mid Cap	**174**	**174**	**283**	**369**	**187**	**304**
Large Cap	47	36	53	62	34	73
Total, All Cap	**221**	**210**	**336**	**431**	**221**	**377**
% Small & Mid Cap	**79%**	**83%**	**84%**	**86%**	**85%**	**81%**
% Outside Canada	**96%**	**95%**	**94%**	**95%**	**91%**	**93%**
% Europe	**59%**	**57%**	**60%**	**64%**	**53%**	**46%**

There are a number of valuable conclusions from this analysis. Firstly, to have the greatest chances of capturing the true alpha opportunities, you have to be fishing in the mid and small cap space – that is clear. Indeed, focusing on this space gives you a 4x better chance of achieving a mission such as mine. Secondly, you need to be doing this in international markets, with some particular focus on Europe. That is perhaps a counter-intuitive point as the broad European equity indices have lagged US indexes for a considerable period of time. Clearly, the broad indices do not tell the whole story. Likewise, Europe is known for being

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less innovative than the US. The counter-point here is that while this may be the case, there is almost certainly less capital chasing these ideas and so more under the radar situations for the diligent investor to discover.

Given our international, and European bias, these conclusions do support the view that we at Highwood are fishing where the fish are and are putting the odds in our favour as a result. Highwood is structurally well set up to attack this opportunity set given our nimble base of capital and my investment experience outside of Canada. However, it should be said that my rationale for doing the foregoing analysis was not specifically to determine the geographic location of these alpha opportunities per se. I was actually rather surprised by the result. Rather, the purpose of the analysis was to catalogue some of the winning businesses and spend more time codifying why they were successful. The analysis also inevitably turns up a number of interesting new investment ideas which I am presently researching. I will leave the conclusions of that research for later letters.

Portfolio Updates

The portfolio continues to be dominated by high quality businesses in European mid and small cap with net cash balance sheets at reasonable prices. As of September 30th, the summary portfolio statistics were as follows:

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
30-Jun-20	69%	0.56x	535	-0.9x	1.5x	11.9x
30-Sep-20	73%	0.57x	588	-1.0x	1.9x	12.4x

Below are the updates on our portfolio holdings in the quarter in alphabetical order.

Alimak – Core Value

Alimak is our mid-cap, Swedish industrial business which develops, sells and services industrial and construction elevators worldwide. It is a classic example of the installed base model and fits well into our Core Value bucket. The group is globally diversified, has a dominant market position with over 60% market share in industrial elevators and benefits from a strong competitive advantage in its brands, installed base and network density. This all shows up in the numbers as high margins and low capital intensity, which amounts to an attractive return on capital. It dominates a niche that has structural tailwinds from safety regulation, urbanization and increased high-rise building, which sets it up for above average organic growth in the medium term.

The new CEO Ole Kristian Jodahl, who was appointed earlier this year, presented his five-year plan for Alimak during the quarter. The plan attempts to put a stronger focus on the customer, create more

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ownership and accountability in the divisions and simplify the reporting lines. It is a similar playbook to that which Mr Jodahl followed at his previous post as CEO of Hultafors Group from 2016 to 2020. The playbook worked well there as evidenced by a meaningful acceleration in profit growth over his tenure. While it is unknown whether this plan will have a similar impact at Alimak, what I do know is that he is well known to the Board of Alimak and that the Board is the largest shareholder in Alimak, so is well aligned with our interests. I look forward to seeing what the new CEO and his refreshed team can do with such a high-quality business as Alimak.

JZ Capital Partners – Special Situation

JZ Capital Partners is the small cap, UK listed closed end private equity fund in liquidation. Our return in this investment will be the difference between our purchase price and the liquidation value of the fund's holdings in a range of private businesses and real estate holdings, less the debt outstanding on those holdings. During the quarter, the group continued to make progress towards liquidation and return of capital to shareholders. The group is proceeding with a secondary sale of several of its private equity interests and the EGM resolutions proposed to restrict the fund from making any new investments were passed. This is a situation with a degree of complexity and given a market cap of £70mn or so, it is off the radar of most professional investors but very much something that we can make count in our portfolio.

Naked Wines PLC – Core Value

Naked Wines gave a trading update in early August which showed that the company continues to benefit from the Covid-19 situation. Revenue was +81% year over year in April and May, +67% in June and +73% in July. Some of this growth has come from new customers, who may or may not stay as subscribers, but the majority of this growth has come from existing customers who are just ordering more wine. The retention rate on these subscribers has also increased from 81% to now 91% from one year to the next. The Naked Wines business model also benefits the independent winemakers who sell on the platform. As Daryl Groom, one of the winemakers on the platform commented, "I make more money selling my wine through Naked at $15 a bottle than through the three-tier system [in the USA] at $50 a bottle". That is a very telling statement and Mr Groom is no fly-by-night operator. He is a 35yr veteran of the wine business including as Senior Winemaker for Penfolds in Australia, where he oversaw the making of Penfolds most famous wine, Grange, and he has won a wide variety of accolades from wine critics since then[2]. Now as the company takes market share and gains scale, it is able to attract more such talented winemakers who want to use the platform to market their wine. This means a wider range and higher quality product for customers. Naked Wines' growth – particularly in new subscribers – also benefits the supply side as winemakers on the platform access a larger and more varied market. This is all a great situation for the third major stakeholder, shareholders, as it strengthens the competitive position as the company grows. I make the point, as when the supernormal growth from Covid-19 does slow down, I believe we will own not just a larger business, but a better and more valuable one per dollar of revenue. Again, this company is still relatively small – it only just got coverage from its first major investment bank – but given our nimble base of capital, we have a meaningful position in its shares.

[2] http://www.groomwines.com/people.html

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Protector Forsikring – Core Value

Protector is our mid-cap, Norwegian P&C insurer with a large and growing investment float. It is part of the Core Value bucket in our portfolio. Protector's business continued to chug along in the quarter and appears to have been less affected by Covid-19 than I had anticipated in March. Q2 results reported in July were strong on both the insurance side, where margins continue to improve, and the investment side, where as discussed in my last letter, the company was opportunistic in its deployment of capital at an attractive running yield in its fixed income portfolio. The float, which is what feeds the AuM growth in this part of the business, continues to grow, and as shareholders we are beneficiaries of the income generated on this pool of capital. While quarterly results are volatile, it is pleasing to see the resilience of the company to the Covid-19 situation so far.

Ryanair – Core Value

Ryanair is our holding which is most affected by the Covid-19 pandemic. The company reported Q1 results for the three months to June 30th, which covers the period during which Europe was in full lock-down. Revenue was down a whopping 95% YoY from €2.3bn to €125mn and profit after tax swung from a €243mn profit last year to a loss of €185mn. Revenue declines of this magnitude are the norm across the industry at the moment and are largely out of the airlines control. What is more in their control, and what differentiates the winners from the losers, is costs. As we've discussed in the past, Ryanair came into this crisis with both structurally lower costs per unit of productive capacity, and a much stronger balance sheet. What is becoming clearer is that Ryanair is also outperforming the competition on cost flexibility – that is how much and how quickly it can reduce costs. The flag carriers, which had higher costs to begin with, have been able to cut costs by 61% on average in the most recent quarter compared to the same period in 2019. The same figure for Easyjet was 79%. For Ryanair, it was 85%. Part of the difference is that Ryanair owns the vast majority of its planes, whereas the competition is paying rent, which is difficult to reduce. Add to that Ryanair's more flexible labour schedule and lower head office costs compared to a highly inflexible (heavily unionized) labour force at the competition and considerably more head office cost, and you have the answer to why Ryanair has more cost flexibility. On its own, this does not make an excellent equity investment. But, we remain convinced that Ryanair will come out of this stronger and well positioned for a multi-year period of market share gain and hopefully a purple patch in profit per passenger as well. I continue to follow the facts as they change, but feel the risk reward remains strongly in our favour.

Standard Drilling – Special Situations

Standard Drilling is our small-cap Norwegian ship owner and the second 'net-net' in our portfolio. In the quarter, the company took a dividend from its joint venture (JV) interest, which added a further $20mn to the company's net cash pile, which currently sits at $40 - $41mn. This compares to the current equity market capitalisation of $43mn. Now, when we buy the shares of the company, we are buying a partial ownership interest of the company – that, I believe, is axiomatic. However, it is easier, and intellectually amounts to the same thing, to consider our acquisition of a partial ownership as if we are buying the whole thing. So, today we pay $43mn for the company and we get cash of $41mn plus a bunch of ships, which are valued by two independent valuers on a quarterly basis at $58mn, a profitable JV interest, also valued by

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independent valuers on a quarterly basis at $20mn and total liabilities of $0.01mn. Herein lies the beauty of value investing: we have both a large margin of safety (the gap between the value of what we own and the price we paid for it) and hence a lot can go wrong before our price today looks overvalued, and we have the potential to make a considerable return, call it 2.4x - 3x money when the price of the shares approaches their fair value. Typically, this repricing requires the sentiment in the market to swings back from what appears rather suicidal to something approaching sanity. If that is the beauty of value investing, the beast of value investing is that it we don't know when that psychological about-face will happen (nor will we spend much mental energy speculating on this).

Vestas – Core Value

Vestas is the Danish listed market leader in wind turbine manufacture and service, which has an attractive installed base business model. The Vestas shares were a stand-out performer in the quarter up 52.5% in DKK and 56.3% in Canadian Dollars. The valuation of the company has expanded at least partly in anticipation of greater investment into the energy transition from fossil fuels to greener energy in the future. As noted in prior letters, wind energy makes up a low single digit share of the power mix globally. In some countries, such as Denmark, wind energy makes up more than 40% of power generation, in other countries it is non-existent. While wind energy's share of power generation will likely be held back by a number of issues, such as intermittency, there is still plenty of room for growth before we bump into those issues in my view.

Vestas and its offshore JV partner MHI-Vestas together continued to capture the largest share of new wind turbine orders in the quarter with over 5.1 GW of orders and, on the service side of the business, became the first company to reach 100 GW of wind turbines under service. The company reported Q2 results showing revenue +67% YoY, but at lower margins due to Covid-19 costs and higher warranty provisions for new turbine sales. The Covid-19 pandemic is imposing new operating costs on the business, but it is also catalysing greater government involvement in the transition to greener energy – on balance it is a net positive impact on the business as it is accelerating infrastructure spending in this space.

<u>Business Update</u>

I met with many of you in the quarter and look forward to continuing this one-on-one dialogue as your portfolio manager. It is a strength of the business that we have a direct relationship and I hope it is helpful for you to have this degree of transparency and access to the person who is making decisions on your behalf. It is, I believe, less common than it should be.

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

Sincerely,

Desmond Kingsford

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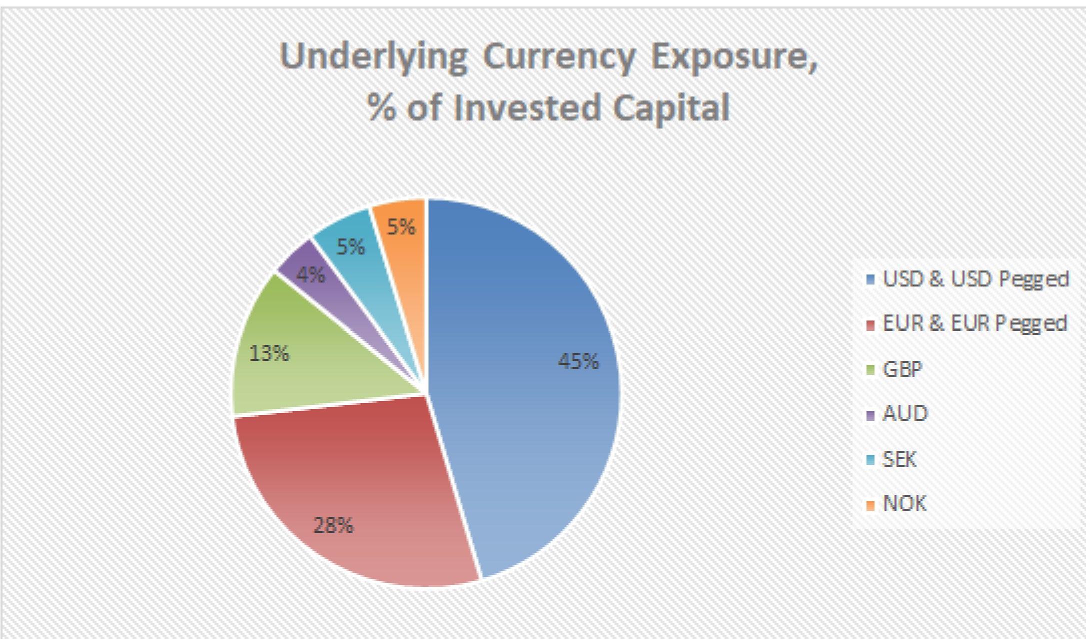
Appendices

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.

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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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