Highwood
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January 15th, 2021

Dear Investors,

During the fourth quarter of 2020, our portfolio was up 21.0% in Canadian dollars, net of fees. For the year ended December 31st, we were up 24.2% which is 23% ahead of the European equity index and 19% ahead of the Canadian equity index[1].

The table below gives you the usual summary of our exposure, performance and attribution by strategy bucket.

Gross Exposures and Attribution by Strategy	**Exposure**	**Q4 2020 Performance**	**Q4 2020 Attribution**	**FY 2020 Performance**	**FY 2020 Attribution**
Core Value Equity	70.6%	29.4%	19.4%	49.8%	29.2%
Special Situations Equity	7.5%	27.0%	1.9%	-30.3%	-4.1%
Total Equity	78.1%	29.2%	21.4%	34.9%	25.1%
Hedges	0.0%	0.0%	0.0%	0.0%	0.0%
Cash	21.9%	-0.3%	-0.3%	-0.9%	-0.9%
Total Portfolio	**100.0%**	**21.0%**	**21.0%**	**24.2%**	**24.2%**

In my last letter to you, I presented an analysis of where the true alpha opportunities have been over the past 10yrs. The conclusion was that European small and mid cap equities has been a 'happy hunting ground'[2]. This was a welcome conclusion given it is an area where I have the majority of my experience, and hopefully of interest to those searching for great long-term equity returns. As this letter is the year end installment, I will take a look back at what has been accomplished this year before looking forward. I will take a step back from the trees and attempt to view the wood with the intent of conveying to you the risks and opportunities I am focused on as a steward of your capital. I will then provide the usual update on the portfolio as a whole and on a position-by-position basis, including a discussion of our engagement with the board of directors of Standard Drilling, which yielded a positive outcome.

Let me begin by attempting to put this year's performance in what I believe is the appropriate context. Our mission, as you know, is to compound every dollar of invested capital into five dollars over ten years without taking undue risk. Our returns so far are slightly above the annualised rate of return we need to reach our destination (17.5% compounded), but far more importantly, 2020 is only one year in a ten-year mission. It is therefore early innings. Highwood's results should be lumpy – as with any concentrated portfolio of equities, either public or private. What matters, and how I hope to be judged, is the outcome of our journey vs our mission. In the interim, I believe the best way to assess Highwood's success is the

[1] MSCI Europe (in CAD) and TSX respectively.
[2] 78% of the equities that did 3x money over a trailing 5yrs were mid & small cap; 59% of these were listed in Europe.

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average return over a number of years. To that end, I will start reporting to you the total and average return since inception.

That said, I am pleased with the way the returns in 2020 were generated. Firstly, the portfolio was up 24.2% in the year while maintaining 36% of the portfolio in cash on average[3], which of course earns very close to nothing (but preserves optionality should good deals present themselves). The return on our invested capital was 34.9%. Likewise, the equity we own was, and continues to be in conservatively financed businesses – on average our portfolio companies had net cash on their balance sheets of 1 year's worth of profits[4]. 'Risk', as I define it, is more than just the absence of financial leverage (either at the portfolio or security level), but I am happy to report we are rowing our collective boat without it, which goes a long way to achieving our objective of compounding capital without taking undue risk.

I am also happy with how we stuck to our discipline. Highwood committed a significant amount of new capital when the opportunities presented themselves – namely in March 2020. Our position in Naked Wines for example was initiated on March 18th, 2020, which was near the maximum point of fear around the Covid-19 pandemic. That decision alone counted for 10pts of incremental value to you. On the sell side, as you will read in the portfolio updates section, we have trimmed our position in Vestas which was up 114% in the year and close to our estimate of fair value.

In terms of low-lights, I would have liked to have found more opportunities that did meet our hurdle. I could have worked harder through the year searching for great deals for us, though as it was year one of Highwood, there was much to do on the non-investment related tasks. I feel the work done in that area does make more room for me to work harder on the investment side (which fortunately, is the part I enjoy the most). In summary, 2020 was a good start in what is a marathon not a sprint.

The Brave New World

We start 2021 in the eleventh year of the longest bull market on record. Equities & credit, both private and public are on average the most highly valued they have been in my career, and in most cases well above where they were prior to the pandemic. The S&P 500 Index is in its 99th percentile of valuation and offers a paltry 2.6% earnings yield. It is back to the 1999 dot com bubble valuations. In credit, the situation is worse. The 10yr US Treasury yield is barely above 1% and there is over $17 Trillion in bonds outstanding currently trading hands at prices that guarantee investors that hold these bonds to maturity will lose money. Speculative behaviour (Tesla, Nikola, Bitcoin) is on bold display. The foibles of our collective mindsets (social proof, recency bias) plus the moral hazard engendered by central banks effectively promising that they will keep interest rates near zero as far as they eye can see is what has got us here. It turns out that a global pandemic is no match for the power of central banks when it comes to asset prices.

I am not one for predictions and I won't be making any here. However, in my humble opinion, the conditions are set for a lot of wealth destruction for equity and credit investors at some point down the road. The obvious trigger would be a change in interest rate expectations, perhaps through higher inflation or a re-evaluation of credit risk. Both are possible, but the reality is there are many factors that could

[3] Calculated monthly.
[4] Please see table on page 3.

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trigger a re-evaluation of the required return from asset markets and most of them lie in realm of the 'unknown unknowns' (take for example, a global pandemic).

So, how do we intend to protect and grow our capital given this backdrop? While equities are highly priced on average, they are not highly priced universally. For example, the following is a list of equity markets where the cyclically adjusted P/E is well below its long run average: The UK, Germany, Japan, Mexico, South Africa, Turkey and Poland. In addition to certain geographies, certain sectors and types of assets (eg. tangible vs intangible) are also out of favour.

Highwood practices our brand of value investing with a concentrated and opportunistic approach. This means we will have a portfolio that is highly differentiated from the averages. We are looking for 10-15 securities that meet our hurdle and we are willing to hold cash – as we have done in 2020 – until we find those opportunities. In truth, the average pricing of the universe of securities is not that relevant to us, provided there is a small subset of undervalued assets that does meet our hurdle. This approach has been a sensible way to protect capital through periods of high average valuation over time. Take for example the dot com bubble: while most of the world's attention was focused on AOL, Lucent, Nortel and Yahoo at that time, the disciplined value-oriented managers were able to assemble portfolios of undervalued assets that preserved and grew capital for their clients. For example, The Baupost Group, one of the model practitioners of this strategy grew client capital by 40% from 1999 to 2001 while the S&P 500 average was down 20% over the same period. They were not alone: small cap value-oriented strategies on average returned 48% from 2000 to 2003 while the S&P 500 was down 24%[5]. So, to answer the question, the greatest tool in our toolbox for the preservation and growth of our collective capital is the diligent application of a fundamental value-oriented strategy with a concentrated, opportunistic and long-term approach. I feel we have executed well on that in 2020 and I look forward to 2021 with cautious optimism.

Portfolio Updates

The portfolio continues to be dominated by high-quality business with net cash balance sheets at attractive prices with a smattering of special situations at what I believe are knock-down prices. The table below summarizes some of the key portfolio statistics:

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
31-Dec-20	78%	0.69x	713	-0.3x	2.2x	13.1x

[5] S&P Small-cap Value Index, January 2000 to January 2003.

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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 elevators worldwide with a c.60% market share. The company reported Q3 results to the end of September during the quarter which showed ongoing impacts from Covid-19 but sequentially improving operating profits, cash flow and reducing net debt. As discussed in the last quarterly letter, the company is undergoing significant internal transformation as the new CEO executes his strategic plan. I had an update call with the company in the quarter and remain satisfied that they are on the right path. I look forward to seeing some of the effects of this in 2021.

JZ Capital Partners – Special Situation

JZ Capital Partners is the small cap, UK listed closed end private equity fund in liquidation and one of our two net-nets in the portfolio. Q4 was a relatively busy one for this holding. The company closed the sale of a portion of its US Private Equity portfolio to Hamilton Lane Advisors, sold a major real estate holding in the US, and agreed amendments to its senior debt facility. These are all welcome developments and progress the situation further down the path of liquidation and return of capital. During the quarter, I had a call with the Chairman and a further Non-Exec Director of the company in relation to the liquidation process. I remain confident the situation is playing out in line with our investment thesis. Following the EGM noted last quarter, the board has recommenced reporting the NAV of the company. As of November 30th, the NAV of our holding pro-forma for the transactions mentioned above is 3.5x what the shares are trading hands at in the public markets.

Naked Wines PLC – Core Value

Our holding in Naked Wines was a strong performer in Q4 up a further 52% in local terms in the quarter and now up 219% from our acquisition price in March 2020. The shares are up significantly – but so is the business. Revenue was +80% in the six months to September and the underlying profit measure that I track was up nearly 6x. While Naked Wines has been a beneficiary of the Covid-19 lockdowns, it has been notable that revenue growth actually accelerated as the lockdowns eased through the summer. Revenue growth in the months of April through July averaged +76% and accelerated to c.+90% in August and September as the lock-down restrictions in their core markets of the UK, US and Australia eased. The relevant question is whether now is the right time to sell this holding given the price appreciation we have benefited from. I don't believe it is. In simple terms, this is a small business in comparison to its target market, it has strong competitive advantages and it remains at a discount to what I think it is worth. To put some simple math on it, I estimate the mature margin for this business is 16-17% assuming all scale gains are re-invested to lower prices to the consumer. The equity trades at between 1.2x – 1.4x the current year's revenue depending on how the second have of the fiscal year plays out. That amounts to sub 10x operating profits were it to stop investing for growth. And, as we have pointed out before, the incremental returns the company is generating on its growth investment are excellent.

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Protector Forsikring – Core Value

Protector is our mid-cap, Norwegian P&C insurer with a large and growing investment float. The shares were up 31% in the quarter and now trade at 1.6x book value. Protector has made lemonade out of lemons this year and this was evident in the Q3 results reported during the quarter. The company has managed to deploy it's large and growing float at attractive returns in the year, which has resulted in pre-tax investment gains of 6 NOK per share in the first three quarters of the year. Meanwhile, the insurance business is chugging along nicely and has delivered pre-tax profits of a further 2.3 NOK per share. Earnings this year will likely be 8 – 10 NOK per share after tax, which will be north of a 30% Return on Equity and leaves the shares on 16% earnings yield from current prices. The shares are continuing to play catch up with the performance of the business.

Ryanair – Core Value

Our shares in Ryanair, Europe's dominant discount airline, were up 43% in the quarter. There were two big pieces of news in the quarter. First of course, was the successful clinical trials and subsequent approval of three Covid-19 vaccines. While it will take time for the vaccines to be rolled out, the clock is now ticking for an improvement in air travel volumes. Secondly, Ryanair announced its firm order for another 210 Boeing 737 MAX aircraft. This follows the lifting of no-fly orders from US, European and Canadian regulators while the aircraft was re-certified as safe. Both the US Federal Aviation Authority (FAA) and Europe's aviation regulator, EASA, have had the spotlight on their nearly 2-year process of re-certifying the 737 MAX as safe to fly. This will have been the most intense and independent safety examination of any airplane in history which, I think, makes the conclusion that much more robust. By ordering 210 of these aircraft, Ryanair is doing what it does best – investing counter-cyclically at scale, achieving a better price for its largest capital expense then most any other airline. The cost benefits from this approach will flow into lower prices for consumers, which widens its price advantage. The new aircraft will expand Ryanair's capacity (and earnings power) by 50% by 2024, and puts the company on the front foot to take advantage of what CEO Michael O'Leary has described as the largest clean-out of the airline industry of his career. Ryanair's execution through the Covid-19 crisis has been excellent, but we will only see the fruits of these decisions by sticking with our longer-term approach.

Standard Drilling – Special Situations

Standard Drilling is our small-cap Norwegian ship owner and the second 'net-net' in our portfolio. In my last letter to you, I described the scale of the under-valuation of this company by our friend, Mr. Market. This undervaluation created a golden opportunity for the Board of the company to create value for all stockholders by buying back some of the company's shares. I couldn't resist engaging the Board of Directors on this subject in the fourth quarter. I quantified the potential value creation on offer and suggested they pursue a share buy-back proportional to the excess cash on the balance sheet. To my delight (and our collective pocket-book), the board issued a tender offer for shares in mid November and to date, has bought back 8% of the company's shares at a large discount to what they are worth. It appears they agreed with my line of thinking, and their actions have increased the value of our shares at the stroke of a pen.

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This is the kind of engagement I aim to have with our portfolio companies and fits with the 'private equity approach to public markets' that I purport to have at Highwood. It is made all the more straightforward when I am speaking to management or board members who are large shareholders, for what is in our interests as shareholders is most likely in their interests too. In investing, incentives matter, and I do my best to understand the chain of incentives from the management of our companies right through to you.

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 shares continued to appreciate in Q4, up a further 40% in the quarter and now up 114% in the year. Business is brisk as the cost of a wind generated MW of power declines, the price of carbon increases and the desire for most any rational country to have control over more of their energy supply is in focus. Revenue in the first three quarters of the year is up 41% and the company has delivered 12.2 gigawatts of turbines in the year – no small feat of logistics given the increased complexity brought on by Covid-19. The business also bought out it's JV partner, Mitsubishi Heavy, in its off-shore wind business so now owns and controls 100% of this business. The price paid was c.1x revenue, which compares to the market's valuation of the whole of Vestas' business of 2.6x revenue. I believe this is a good deal for Vestas shareholders.

In contrast to our holding in Naked Wines, I have trimmed our position in Vestas. The shares are benefiting from excitement about the transition to green energy which has propelled the shares close to my estimate of fair value. We have made a nice profit on this investment, but we will stick to our discipline.

Business Update

Investors' tax slips for the calendar year ended December 31st, 2020 will be available from the custodian in late February. They will be mailed directly to you or, if you opted to receive them on-line they will be available for download from your NBIN portal.

Highwood remains open to new clients who see value in our mission and share our long-term approach.

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

Sincerely,

Desmond Kingsford

Appendices

Underlying Currency Exposure Split

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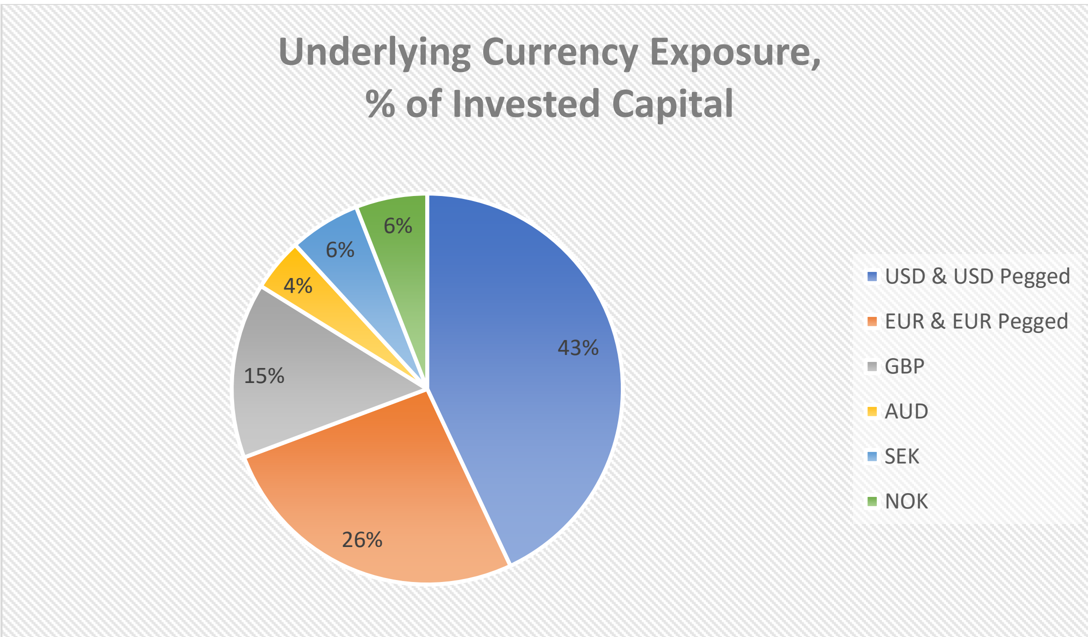
This is not a breakdown of the listing currency of our holdings. It is the split of the currencies our portfolio companies earn their revenues in. As such, it is the underlying exposure to currencies you have through your partial ownership of these businesses. As investors can choose whether to have 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.

While the Firm's investment mandate is designed to reduce risk the program will inherently entail substantial risks. There can be no assurance that the investment objective of the Firm will be achieved. In fact, the investment techniques that the Firm may employ from time to time may, in certain circumstances, substantially increase the adverse impact on the Firm's investment portfolio. Accordingly, the Firm's activities could result in substantial losses under certain circumstances. A separately managed account managed by the Firm is highly speculative and there can be no assurance that the investment objectives of the Firm will be achieved. Nothing herein is intended to imply that the Firm's investment methodologies may be considered "conservative", "safe",

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"risk free" or "risk averse". Investors must be prepared to bear the risk of a total loss of their invested capital. Past performance of Mr. Kingsford and his affiliates is not necessarily indicative of the future results and any prospective clients of the Firm will need to be prepared to lose all or substantially all of their investment. The Firm will give no warranty as to the performance or profitability of any client account or that the investment objectives of a client's account will be successfully accomplished.

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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