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April 15th, 2023

Dear Investors,

During the first quarter of 2023, our portfolio was up 13.7% in Canadian dollars net of fees. The broad European equity index was up 10.4%[1] and the Canadian index was +4.0% in the quarter.

The table below gives you the usual summary of our performance and exposure by strategy bucket for the quarter and the relevant periods since inception.

Time Period	Performance, Net of Fees	Exposures by Strategy Bucket			
		Total Equity	Core Value Equity	Special Situations Equity	Cash
FY 2019 [1]	1.9%	41.0%	36.0%	5.0%	59.0%
FY 2020	24.2%	78.1%	70.6%	7.5%	21.9%
FY 2021	5.1%	84.1%	80.8%	3.3%	15.9%
FY 2022	-14.5%	95.6%	79.9%	15.8%	4.4%
Q1 2023	**13.7%**	**95.5%**	**76.8%**	**18.7%**	**4.5%**
Average, Since Inception [1]	8.1%	78.5%	68.9%	9.6%	21.5%
Total Return, Since Inception [1]	29.5%				

1. Inception on December 9, 2019

In this letter, I will update you on developments in the portfolio during the quarter, provide the summary thesis on a new investment and the give you the usual disclosure on a position-by-position basis. I will be travelling to Toronto in late April to meet with existing and potential clients and then on to Omaha for the Berkshire Hathaway annual meeting on May 6th. Please feel free to reach out if you would like to arrange a meeting and I will try my best to accommodate.

It was a good quarter for Highwood, with the strong performance from the last quarter continuing. We had positive developments at our portfolio companies which drove the majority of the mark-to-market gains in the quarter, notably from Burford Capital and Borr Drilling. I was also able to upgrade the margin of safety and expected returns in the portfolio by selling a position with a lower prospective return and re-deploying the capital into a new position which I believe has a materially higher prospective return. In the next two sections I will give more detail.

First, I want to briefly draw your attention to a passage in Warren Buffett's most recent annual letter to shareholders. In the letter, he contrasts the investments Berkshire makes in public equities (such as Coca-

[1] MSCI Europe (in CAD) and TSX respectively.

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Cola and Apple) with those made in the private market, or the so-called 'controlled businesses' (such as Burlington Northern, which is wholly owned by Berkshire). He says:

"One advantage of our publicly-traded segment is that – episodically – it becomes easy to buy pieces of wonderful businesses at wonderful prices. It's crucial to understand that stocks often trade at truly foolish prices, both high and low. "Efficient" markets exist only in textbooks. In truth, marketable stocks and bonds are baffling, their behavior usually understandable only in retrospect. Controlled businesses are a different breed. They sometimes command ridiculously higher prices than justified but are almost never available at bargain valuations. Unless under duress, the owner of a controlled business gives no thought to selling at a panic-type valuation.[2]"

I draw your attention to this passage as I think it articulates the unique advantage available to public markets investors if they are willing and able to take it. That advantage is the ability to buy or sell partial ownership in businesses at a liquid price offered every day. In this important way, public markets are differentiated from private markets. In Buffett's experience, those partial ownership interests of 'wonderful' businesses are more likely to be offered at 'wonderful' prices in the public markets, not the private markets. That is one of the key advantages we have at Highwood, and my job is to continuously have the judgement and discipline to leverage it for our collective capital.

Burford Capital & Borr Drilling

Our investment in Burford Capital, the UK listed global market leader in litigation finance, had a notable positive development during the quarter. As a reminder, Burford makes money by funding select commercial litigation cases in exchange for a share of the ultimate award or settlement. This has been a good business to be in and Burford is the market leader with long-standing relationships and greatest accumulated knowledge in what is a challenging but attractive niche asset class to invest in. They have become a preferred partner for law firms and corporate clients globally.

The single largest legal asset in their portfolio, as measured by economic value to Burford shareholders, is the *Petersen and Eton Park vs Argentine Republic and YPF* case. Burford have been providing the funding for Petersen and Eton Park to pursue the Argentine Republic and YPF over the nationalisation of their shares in YPF, an NYSE listed oil and gas company, in 2012 without compensation. As noted in the original investment thesis here, I estimated that this case was potentially worth multiples of Burford's entire market cap and that we were paying little if anything for this asset at our acquisition price. During the quarter, Burford and its clients received a positive summary judgement on the case in the Court of the Southern District of New York, which you can read here. In the words of Burford's CEO, the judgement was 'a complete win against Argentina with respect to liability'. Our shares in Burford were up 53% on the day. The judgement has significant positive implications for Burford – one of which is the potential for a settlement in the billions of dollars. We await the court's determination of the exact damages payable to the plaintiffs, and therefore Burford, but the fact is that significant damages will be payable. The judgement also provides a useful datapoint on the attractiveness of Burford's business model and the management team who had the conviction to fund this case for over 8 years. While our shares have appreciated on the

[2] Page 4 of the 2022 Berkshire Hathaway Shareholder's Letter, available here.

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back of the summary judgement, I believe they are better value now at a higher price than they were prior to the judgement when considering all factors, including Burford's share of the potential damages or eventual settlement.

We also had positive developments at Borr Drilling. Borr is our mid-cap, Norwegian listed owner of shallow water drilling rigs and is one of two special situations investments for Highwood. The summary thesis on our investment in Borr is available here.

Our shares in Borr have been marked up by 2.9x since we acquired them in February 2022 driven by progress in line with that thesis. During the first quarter the day rate cycle continued to strengthen and management re-financed the last remaining near-term debt maturity. Borr announced strong Q4 results in the quarter, upgraded guidance for 2023 and issued guidance for 2024 of EBITDA of between $580mn and $600mn. Management also indicated that they will push forward with plans to start paying dividends to shareholders in 2024. On the basis of current guidance for 2024, the shares are on a 20% distributable free cash flow yield at market prices and a 60% yield from our purchase price.

Sale of Vestas and Re-deployment of capital into Motorpoint Group PLC

In addition to the positive developments at Burford and Borr Drilling, I was able to upgrade the expected return and margin of safety in the portfolio as a whole by re-allocating capital from our position in Vestas into a new position in Motorpoint Group PLC. We sold our shares in Vestas after a 3.1yr holding period and achieved a mid twenties IRR on our investment pre-tax. This is the second investment we have exited since inception[3] and a good result in my view given the headwinds the company has faced. Vestas has had a tough two years and as a result, was one of two companies in the portfolio operating below my initial underwriting assumptions. Profit margins on the original equipment side of the business (ie new wind turbines) went negative as the company dealt with inflation in the cost base and logistics challenges post COVID. The fact that we were able to sell our holding at a solid profit vs cost despite the business operating below my initial assumptions shows the value of always investing with a margin of safety. The proceeds have been re-deployed into the shares of Motorpoint Group PLC, which I estimate have a greater margin of safety and expected return over the next five years than what we had with Vestas at our sale price after tax.

Motorpoint is a core value investment for Highwood. It is a proven scale economies business with a net cash balance sheet, strong owner-minded management and an attractive opportunity to redeploy capital at high returns over the long-term. Over the past 8 years, the company has self-funded it's growth from 7 locations to 20 and grown operating profits organically by 3.3x (16% CAGR) while also paying out 23% of the market cap in dividends and shrinking the share count by 12%. The implication of which is that if you had bought Motorpoint 8yrs ago, held it to now and sold it for the same multiple of profits you bought it for, you'd have made 4.2x money and an 8yr 20% IRR[4].

We were able to acquire our shares at a substantial discount to their worth owing to cyclical headwinds in Motorpoint's core market and short-termism in the company's investor base. We own the shares at 6x my

[3] The first was our investment in Standard Drilling, which we sold at a modest profit after management took the company in a direction that was not in line with the thesis.
[4] Ie the 'constant multiple return'.

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estimate of normalized earnings and 2-3x earnings over the medium term if management execute well. Time will tell, but I believe we have leveraged our advantage as a public markets investor to acquire a portion of a 'wonderful' business at a 'wonderful' price.

Please see Appendix 1 for the summary thesis on Motorpoint.

Portfolio Update:

Below is the usual table which summarizes key statistics on the portfolio as of March 31st. The portfolio is priced at 48 cents of my estimate of intrinsic value, the median P/E is 10.5x and portfolio companies have on average net cash balance sheets (Net Det / EBITDA of -0.1x).

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-Dec-20	78%	0.69x	713	-0.3x	2.2x	13.1x
31-Dec-21	84%	0.52x	1387	-0.5x	2.0x	13.3x
31-Dec-22	96%	0.45x	1013	0.2x	1.0x	10.6x
31-Mar-23	**96%**	**0.48x**	**981**	**-0.1x**	**1.3x**	**10.5x**

Below are the updates on our portfolio holdings in order of their contribution during the quarter, excluding Burford and Borr Drilling which I have already commented on:

Ryanair – Core Value

Ryanair is our large cap, Irish listed discount airline that is able to price its fares at a 30% discount to the costs of competing airlines and still earn a low twenties return on capital in a normalised environment[5]. Ryanair is a textbook example of the scale economies shared, or discount business model and one of four such businesses in the portfolio. The company reported another strong set of results during the quarter. For the three months to December 2022, traffic was up 24% and is now 7% above pre-COVID levels, which compares to an industry that is still c.15-20% below pre-COVID levels. Ryanair has continued to take market share profitably, the acid test of any good business, and saw considerable share gains in Italy (from 26% share to 40%), Poland (from 27% to 38%), Ireland (from 49% to 58%) and Spain (from 21% to 23%) over the past nine months. These market share gains are fuelled by the economic space Ryanair has created between it and its competitors on unit costs, which enables it to offer lower priced fares than any competitor. Unit costs at Ryanair continued to decline in the quarter which is in sharp contrast to the competitors who have seen unit costs increase. Ryanair's cost per seat (ex-Fuel) has declined from €31 to €30 over the past 9 months while competitors such as Wizz, EasyJet and the flag carriers such as Lufthansa

[5] Ryanair's return on capital in the ten years prior to the COVID-19 pandemic was 22.4%.

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and BA have seen their unit costs increase by 15-25%. Ryanair is a widening competitive moat delivering strong market share gains and on track to increase capacity at a double-digit rate over the next few years for sale today at 11x 2023 earnings.

GetBusy PLC – Core Value

GetBusy is our small-cap, UK productivity software business with a strong position in the tax and accountancy vertical, good economics and a net cash balance sheet. The company reported full year results and announced an interesting (and slightly controversial) new incentive structure for the senior management.

Full year results were strong. Group revenue was +28% in H2 at 90% gross margins. Operating costs grew at half the rate of sales, which resulted in margins expanding from break-even in the first half of the year to 6.5% at the EBITDA level in the second half of the year. Strong revenue growth at 90% gross margins over fixed costs is delivering the kind of operating leverage I have been expecting. The company's strategy of re-investing the cash flow generated by the established products into the growth of SmartVault, its newer product, has always looked like the right strategy to me given the incremental returns of doing so, but it is now starting to show through in the reported financials.

Along with the good results, the board announced a new private equity style compensation plan for the CEO and CFO. Under the plan, management will earn a sliding scale percentage of cash distributed to shareholders of between £70mn (£1.26 per share, fully diluted) and £150mn (£2.70 per share) over the next seven years. To put the significance of this plan in the proper context, GetBusy PLC is trading at £0.70 per share as of the end of the quarter. The obvious point is that plan is ambitious and suggests the board and management believe the company is worth considerably more than the current share price, as I do. After all, the plan only vests if the company distributes cash to us of 1.8x the current share price, likely from the sale of a division or the entire company. Nonetheless, I see both positives and negatives to the plan which I will not rehash here, as I have discussed them at length with management. In the end, the incremental dilution to us as owners only starts to be difficult to swallow at prices above my estimate of fair value for the company, and it does incentivize management to work hard to make us all a little better off.

Hotel Chocolat – Core Value

Hotel Chocolat is our UK listed premium branded chocolate manufacturer and retailer run by the founders who continue to own the majority of the shares. We bought our shares in Q4 last year and the thesis behind our investment is available here. As a reminder, Hotel Chocolat is transitioning from being run for growth over the COVID period (which came at high incremental cost and complexity) to being run for profitability first, growth second. As part of that it is focusing in on its core UK market and is slowing or stopping investment in its loss-making joint ventures abroad. During the quarter, the company reported results for the six months to the end of December, including the all-important Christmas trading period (when a lot of chocolate gets consumed, not just in my house!). The company is making progress on some of the key variables that will get us to the improved profitability that the UK business is surely (in my view) capable of. The business did run tighter inventory through the Christmas period and will have lower discounting in H2 as a result. However, the majority of the initiatives on cost reduction, from rolling back

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SKU proliferation and consolidating suppliers to cutting the night shift in the main factory (which is at 1.5x pay) will take time. We are six months into a three-year plan. In the meantime, the business is profitable, cash generative and has a strong balance sheet.

Sto SE – Core Value

Sto is our German listed, family run international manufacturer of building coatings with a dominant market position in external wall insulation in Europe. You can read the investment thesis here. The main update since that time is the significant increase in the cost of energy in Europe, which has a proportional increase in the value of, and demand for STO's products which improve energy efficiency in residential and commercial buildings. There were no significant developments in the quarter to update you on. Sto is run more like a private company which is just the way I like it. Our shares were marked up modestly during the quarter and trade at a solid 10% free cash flow yield. We will get full year results and an update on the operating environment in late April, which I will discuss in the next quarterly letter.

Protector Forsikring – Core Value

Protector is our mid-cap, Norwegian P&C insurer with a cost advantage in underwriting which feeds a large and growing float. Protector has been one of our more successful investments over the past three years, driven by the aforementioned cost advantage in underwriting and strong execution. Our investment in Protector has delivered a 3.2x return on our capital including dividends over a challenging period that has included a global pandemic, a war in Europe and rising inflation. Protector reported another excellent set of results in the quarter. On the insurance side, the company grew premiums by 62% at a combined ratio of 92%. The result was driven by strong growth in the UK, which is now the largest market for the company. 2023 is also off to a strong start with premium growth in January of +17%. On the investment side, Protector's fixed income portfolio is now 12.2bn NOK at a 6% yield which is delivering a 5% after tax running yield on the current market cap. The result from insurance underwriting and returns from the equity portfolio are on top of this. Unlike many of the US regional banks, Protector judiciously kept the duration of the fixed income investments low (1.3yrs at last year end) which has protected capital in a rising rate environment. For the full year, Protector delivered total profits after tax of 810mn NOK, which is a 27% Return on Equity. Management have run the business with a strong balance sheet, arguably overcapitalized, while also paying out dividends to us as owners in the year of 11.5 NOK/share, which is an 8% yield at the current price. With the Q4 report, management announced a further special dividend of 6 NOK/share.

Alimak – Core Value

Alimak is our mid-cap, Swedish industrial business which operates an attractive installed base business model. It has a dominant position in the core industrial elevator business which provides a defensive, growing cash flow that management can deploy back into organic growth at high returns, acquisitions to consolidate other niches within vertical access or return to shareholders. The company reported a strong set of Q4 results during the quarter and completed the rights issue to bring down debt after the acquisition of Tractel earlier this year. Revenue in Q4 was up 36% including the consolidation of Tractel and Tall Crane, and operating profits were up 52%. Post the rights issue, Alimak is still the most highly levered of our core value positions with Net Debt / EBITDA of 3x. Management expect to bring this down from

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organic cash flows over the next year to a target of 2x Net Debt / EBITDA. We own the shares at 1.8x revenue and 11x Earnings.

JZ Capital Partners – Special Situation

JZ Capital is our small cap, UK listed closed-end private equity fund in liquidation. JZCP continued to make progress toward liquidation and return of capital during the quarter. The fund realized a further $53.4mn in sale proceeds from the US portfolio and used the proceeds, along with the proceeds of asset sales in Q4, to redeem the subordinated loan notes. The composition of the fund's NAV is changing as private equity assets are converted into cash. The most recent NAV is marked at $4.08 per share of which $0.74 is net cash and the remaining $3.34 per share comprises private equity assets still to be sold. This means that the net cash position is now 18% of the NAV. With the shares trading at a 50% discount to NAV, cash is now 35% of the market cap. In that sense, our position is being de-risked, yet the shares continue to trade at a similar discount. I had a call with management about next steps for the company and the merits of using excess capital to buy back shares at what amounts to 50 cents on the dollar. The merits of doing so are clear: it is a straightforward way of monetizing the discount and increasing the per share value of the shares. Indeed, if the company were to use all of its excess cash to do this, the NAV per share would increase from $4.08 to $5.15 per share, or 25%. Our flexible approach to go where the opportunity is, regardless of size, and our long-term approach are invaluable when it comes to this investment. I look forward to staying engaged with management about the opportunities they have to create additional value for shareholders.

Naked Wines – Core Value

Naked wines is our UK listed online direct-to-consumer subscription wine business. During the quarter, the company reported a trading update for the 3 months to the end of December in which they upgraded guidance for operating profits for the current fiscal year from a midpoint of £11mn to £15mn. This was driven by good cost control and repeat customer profit contribution at the top end of their expectations. The other major development in the quarter affecting Naked Wines was the bankruptcy of Silicon Valley Bank (SVB), which was one of two banking partners for the company. Naked had £0.6mn out of £32mn in gross cash on deposit with SVB. In addition, the group's $60mn asset backed credit facility (ABL) is syndicated 50/50 with SVB and Bridge Bank, which is another Bay area bank. The company has started the process to find new banking partners. To be clear, Naked Wines is profitable and as of March 10th, had £31mn of gross cash on hand not held at SVB. As the company moves through this calendar year it will become more cash generative as it unwinds an elevated inventory position. The banking facility was in place for a reason: in the event of weaker trading before unwinding the inventory position, they would need to draw on it. In fact, trading has remained above management's own expectations and they are now closer to unwinding the inventory position, which I expect will release $40-$50mn in cash over the next 12 months, a similar quantum to the ABL. While the bankruptcy of SVB is not what Naked Wines needs right now, the company's reliance on any external funding is declining and I am confident they will manage through this period. From the current marked-down price, the risk-reward remains compelling in my view.

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

Sincerely,

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Desmond Kingsford

Appendix 1: Motorpoint Group PLC Summary Thesis

Motorpoint is a core value investment for Highwood. It is a proven scale economies business with a net cash balance sheet, strong owner-minded management and an attractive opportunity to redeploy capital at high returns over the long-term. We were able to acquire our shares at a substantial discount to their worth owing to cyclical headwinds in Motorpoint's core market and short-termism in the company's investor base. We own the shares at 6x my estimate of normalized earnings and 2-3x earnings over the medium term if management execute well.

Motorpoint Group PLC is a UK listed small-cap and the largest independent, non-franchised, used car retailer in the UK. The company has traditionally focused on a segment of the market termed 'nearly new' cars, which are between 0 and 4 years old. Unlike the franchised dealers, it sells vehicles from all the major brands in the UK and it does so from 20 locations across the UK, plus its website for on-line purchases, which comprise c.1/3rd of group sales in a post Covid lockdown world. Management have also developed an online wholesale channel to sell vehicles acquired on trade-in that are over 4 years old. These vehicles typically go to the long tail of smaller independent used car dealers. The wholesale business is small (14% of gross profit), growing nicely but ultimately serves to facilitate the retail operation at this point.

Over the past 8 years, the company has self-funded the growth from 7 locations to 20 and grown operating profits organically by 3.3x (16% CAGR) while also paying out 23% of the market cap in dividends and shrinking the share count by 12%. Returns on equity have averaged 50% and the company's market share of the nearly new segment has roughly doubled to 3.7% over this time. The company IPO'd in 2016 with a strategy of opening one new site per year. Management executed on this, and returned excess free cash flow to shareholders, until in 2021 they and the board decided to re-deploy more of the excess free cash flow organically to accelerate the roll-out of locations. To my mind, this is the right strategy. They (and the board) also decided to invest more aggressively to build a stronger on-line offer, in part due to the threat of apparently counter-positioned online-only models such as Cazoo and Cinch. These new entrants have yet to reach profitability let alone competitive parity with Motorpoint. I do not expect they will be able to.

It costs Motorpoint c.£750 to sell a car on average, which is by far the lowest costs in the industry based on public and private filings. This compares to franchised dealers such as Arnold Clark, Evans Halshaw and Sytner Group, which have unit costs of £2,900 per car on average, 3.9x Motorpoint's unit costs. Cazoo, the much-touted on-line only disruptor, has unit costs in the most recent period of £3,200/car and management estimates it will require unit costs of £1,500 to break even (with volume growth required to get there). Cazoo is presently burning cash, and to make matters worse in what is a fixed cost business,

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volumes are declining. Motorpoint has a compelling cost advantage, not dissimilar to Ryanair, one of the other core value investments in the portfolio.

The similarity with Ryanair does not end there. In the words of the CEO, Mark Carpenter, Motorpoint is "an omnichannel vehicle retailer, predicated on working to a high volume and keeping our cost base low. This allows us to share value with our customers, reinforcing our volume model".

In virtue of their industry leading unit costs, Motorpoint does not need to mark it's inventory up by as much as competitors to make a profit on a per unit basis. Gross Margins have averaged 7-8%, or c.£1,200 per car, at which price, Motorpoint makes a profit of c.£450/unit[6]. This compares to the traditional competitors, which need to mark their inventory up by c.£2,900[7] just to break even and on average mark the same vehicles Motorpoint sells up by between £3,000 and £4,000 to earn a profit. Competitor gross margins range from 10% to 20% vs Motorpoint at 7-8%. In practice, this means the consumer is being asked to pay £25,000 – £26,000 for a 2yr old Renault at the competition or £23,200 at Motorpoint. And therein is Motorpoint's economic moat: The same car for less.

The result of this competitive power is market share gains and profitable volume growth over time for Motorpoint. This in turn results in more units sold over the same largely fixed cost base of people, rent and advertising, which drives further advantage in unit costs vs competitors and the opportunity to reduce prices further, which widens the economic moat. The result is more share gains and volume growth. It is the classic discount business model – or 'scale economies shared' as it is often called – which has been responsible for the creation of huge shareholder wealth across many industries and time periods[8].

It is worth pointing out that Motorpoint is benefiting from a number of positive self-reinforcing feedback loops which strengthen its advantage over time:

- The lowest prices also helps when it comes to customer satisfaction, which is measured by the Net Promotor Score[9]. Used car salesman are not known for leaving a good taste in the mouth of their customers, but Motorpoint has consistently earned a Net Promotor Score in the low 80's, most recently at 84. This higher-than-average customer satisfaction results in c.35% of sales to repeat customers and word of mouth to new customers, which in turn results in lower marketing costs per unit vs competition. Marketing costs are 1/3rd of total costs.
- It is also good for employees. As the more economically advantaged model, Motorpoint has created the right to grow organically, and that growth creates job opportunities for employees and results in higher staff retention. Motorpoint is consistently ranked as the top auto retailer to work for and is in the top 100 best large companies to work for in the UK.
- The model works for Motorpoint's suppliers, which have traditionally been larger scale owners of vehicles – rental companies (such as Hertz and Avis), leasing arms of the major OEMs (eg. BMW and Ford) and fleet managers and owners. Motorpoint's scale and fast inventory turnover allows them

[6] £1,200 Gross Profit/Unit - £750 Cost/Unit = £450 in profit/Unit.
[7] Gross Profit / Unit = Costs / Unit for break-even.
[8] Wal-Mart (Waltons), Costco (Jim Sinegal and Jeff Brotman) and Amazon (Jeff Bezos) are good examples.
[9] NPS comes from the question: "On a scale from 0 – 10, how likely are you to recommend this company to a friend or colleague?" and is often a strong predictor of business growth.

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to negotiate more efficient volume deals with these suppliers than the smaller independent dealers can offer.

- Fourth, with this kind of a price gap, Motorpoint sells its inventory much quicker than competition. Inventory turns are roughly 2x the competition, which even at Costco type margins results attractive returns on capital for shareholders.
- Finally, the UK used car market benefits from a high and growing degree of price transparency, largely due to the existence of Autotrader.co.uk, which functions as a price comparison tool for consumers. This works in Motorpoint's favour as they consistently have the lowest prices on like for like models and back it up with a price promise.

The management team have done a good job fostering the company's competitive advantage and deploying the profits of the company at high returns. This is no surprise as they are significant owners of the company and benefit more from the long-term value of the company on a per share basis than from salary and bonus. Mark Carpenter, the CEO, owns 10% of the shares and the rest of the board and management own a further 5%. Mark has been with the company for 12 years, prior to which he was the group finance director at Sytner Group, which is the largest franchised dealer in the UK. From IPO to 2021, management's strategy was to open one location per year and return excess capital to shareholders. This was not due to a lack of high return growth opportunities, and in June 2021, they set a new course to invest more aggressively to grow the business organically.

The business has attractive opportunities to do so. As noted, Motorpoint has c.3.7% market share of the nearly new segment with 19 locations[10]. This compares to an average market share of 9.5% within a 30 minute drive of each catchment, with some more mature sites having share of between 15-20%. And therein is the opportunity: the company is only reaching about 1/3rd of the UK population[11]. So, Motorpoint is now rolling out the model to presently unfulfilled locations in the UK, while also investing more aggressively to grow the on-line presence of the brand. Many companies have growth plans, but Motorpoint's plan feels relatively lower risk. Since IPO, the company has opened 10 new locations. Each one has seen consistent market share gain in it's catchment since opening, and all of them have delivered attractive returns on incremental capital. The company targets 10% market share at maturity, which is volumes 2.7x the current level and they have identified 25 new market areas to get there, all of which will be self-funded.

Despite all of this, the share price chart would have you believe there is no future for Motorpoint. The shares are at a 52 week low, well below where they were pre Covid and indeed, the market cap is now less than what it was when the shares were at their all-time lows in December 2016. At that time, Motorpoint was less than half it's current size in locations or revenues. Why? I see two reasons. First, as you are probably aware, used car prices went through a bubble during Covid. That bubble is deflating as production of new cars gets back to normal and fleet owners start to de-stock. Falling used car prices has a direct negative impact on the P/L of a used car dealer, proportional to how long they hold their inventory for. This is pressuring margins across the industry. Secondly, Motorpoint is investing for growth. This

[10] As at September 30, 2022.
[11] Within a 30 minute drive time of a location.

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means a greater share of locations that are early in their maturity curve, and more upfront costs in the P/L as they staff the growing business and invest in the on-line capability. Together, these factors are pressuring the near-term profitability. Investors are focused on the near term factors and do not seem willing or able to look out a few years. Finally, the entry of the well funded, on-line only models such as Cazoo and Cinch have created a degree of uncertainty in the market about the competitiveness of the bricks and mortar or 'omni-channel' models such as Motorpoint in the long-term. I am less concerned given Motorpoint's relative cost position. At break even, which looks a long way off, Cazoo would still have unit costs roughly 2x what Motorpoint has. My belief is that Motorpoint is already doing what the online models set out to do, which is to offer a cheaper, easier way to buy a used car.

We have acquired our shares at a price which I believe gives us a strong margin of safety against any of the negative outcomes I can see. We own the shares at 6x earnings on P/L normalised for a decline in used car prices and margins. If management continue to execute and the new locations mature on a similar trajectory to the locations opened prior to 2021, we will own the business at between 2x and 3x earnings. If the company really get's to a 10% market share, it would be even lower still. The road ahead may be a bit bumpy when it comes to the mark to market, but that is a small price to pay for the long-term compounding on sale here in my view.

The risks I see can broadly be broken down into risks of them losing market share and risks of the market itself shrinking. I believe the risks of them losing share, essentially competitive risks, are low given the company's cost position in a commodity market with a high degree of transparency. The operational risks inherent in running and scaling the business are in the hands of an experienced management team which you can say we have 'hired' by buying the shares. I feel good about this hire (given their past track-record) – though I will learn more about this over time. The risks of the market shrinking (ie number of transactions in the 'nearly new' segment) are also low in my opinion, but they deserve to be clarified in advance. The market could shrink either because the car parc (ie the number of cars on the road) shrinks or because people hold onto their cars for longer periods of time. One risk in particular is the impact of electric cars, and whether their owners will hold onto them longer, which would reduce the number of transactions in the 0-4 year old market. This may be because EVs have fewer moving parts and less wear and tear. Here, I think there is a risk, but in the medium term, I am less concerned. Even if electric cars are such that people will naturally hold on to them longer, I think it will take a long time for this to result in fewer transactions in Motorpoint's core market. This is because the 0-4 yr old market is a good source of 'nearly new' EVs for consumers transitioning in this direction. It is likely to benefit from the adoption of EVs in the medium term. A second risk is the potential impact of 'ride sharing' or self driving cars, and whether they could shrink the car parc, perhaps because this service is more efficient than consumers owning their own car. I think it is still too early to have a strong view on this issue, and it is something I think deserves careful monitoring. If either ride-sharing or self-driving cars as a service do get to scale, it will entail the building of large fleets of vehicles, either new from OEMs or from the second-hand market. From what I can determine so far, most likely the 0-4yr old segment benefits disproportionately if this comes to pass.

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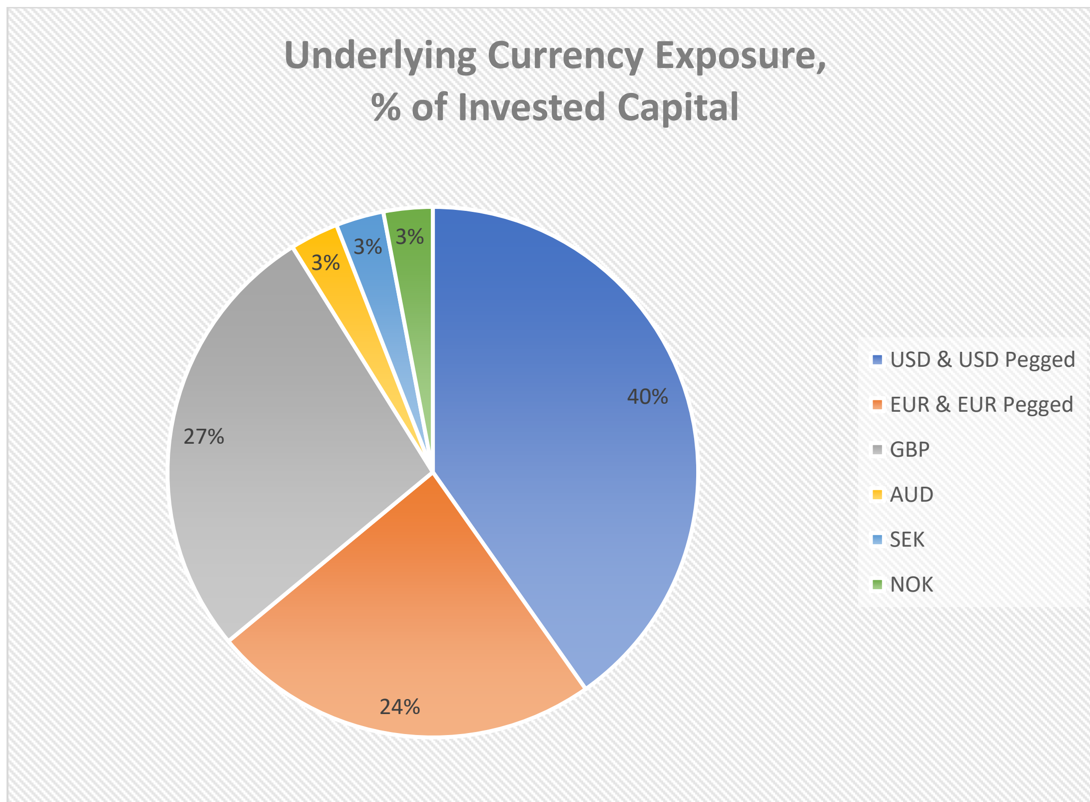
Appendix 2: Underlying Currency Exposure Split

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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