Highwood
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October 15th, 2023

Dear Investors,

During the third quarter of 2023, our portfolio was down 2.9% in Canadian dollars net of fees. The broad European equity index was also down 2.9%[1] and the Canadian index was -2.4% 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.

		Exposures by Strategy Bucket			
Time Period	**Performance, Net of Fees**	**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%
Q3 2023	**-2.9%**	**95.0%**	**76.5%**	**18.5%**	5.0%
Year to Date, 2023	8.2%	95.3%	76.7%	18.6%	4.7%
Average, Since Inception [1]	5.6%	80.6%	69.8%	10.7%	19.4%
Total Return, Since Inception [1]	**23.2%**				

1. Inception on December 9, 2019

In my last letter to you I provided some thoughts on 'business quality', and specifically a few business model types that provide a happy hunting ground for long-term, owner minded investors. These business models are attractive to us because they have the latent ingredients for the kind of competitive advantage that can sustain high returns on capital over long periods of time. This is a good starting point, but a high-quality, competitively advantaged business alone is not enough. Aside from monopolies, any business that has been able to sustain high returns on capital for long periods of time also has exceptional management guiding that business. Wal-Mart had Sam Walton, Apple had Steve Jobs, Southwest Airlines had Herb Kelleher, Amazon had Jeff Bezos, Berkshire Hathaway has Warren Buffett and Charlie Munger. These CEOs were exceptional leaders and architects of the corporate culture essential to the success of these businesses. In this letter, I will outline a few thoughts on what we are looking for in the leadership and corporate culture of the companies we aim to be partial owners of for the long-term.

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

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Alignment and Agency

The defining features of these great CEOs is that their interests are both highly aligned with the long-term owners of the business and they foster a corporate culture with a high degree of agency. That is, they think like *investors* in the business – in most cases because they are – and they have created cultures where their employees are empowered to choose, initiate and control their actions in pursuit of long-term goals. For some of these businesses, such long-term goals take the form of a mission or even a crusade.

These features are a unifying aspect of the leadership and corporate culture of great businesses. As the track record of the companies mentioned earlier demonstrate, when this mindset is applied to the daily decisions of operating the business and the less frequent decision of how to allocate corporate capital, great things happen. As such, it is also what we are looking for in the management and corporate culture of the companies we seek to own. In practice, this amounts to examining the character, incentive structure and track record of management across the key functions of operatorship and capital allocation. This is best achieved by a combination of desk-top research to understand management's previous decisions, interviews with former colleagues and management themselves. What I am looking for in that research is demonstrated evidence of the following attributes, which form something of a checklist:

- An analytical, return on capital-based mindset. The CEO uses a framework for assessing the return on capital for any use of the company's operating cash flow, whether that is re-investing in the business, acquisitions, share re-purchase, debt re-purchase or dividends. This framework often includes a hurdle rate for any use of capital similar to what we have at Highwood.
- A long-term approach. Management view themselves as long-term owners or investors in the business, rather than highly paid employees on a fixed term. They have demonstrated a willingness to forego short-term profits if that would risk the long-term competitive advantage.
- A conservative approach to risk. This encompasses both operatorship and the balance sheet (which is in part why we have ended up with a portfolio of companies with little to no debt).
- Capital allocation decisions are taken centrally by the CEO based on their own calculations, with minimal influence from outside bankers and consultants.
- A decentralized approach to operational decision making. As Buffett has said, 'hire well, manage little'. Management delegate the operational decision making to those closest to the situation – the opposite of micromanaging.
- The organization has a culture of 'test and learn', where outcomes are tied back to the decision, mistakes are accepted and analyzed as an opportunity to improve decision making.
- Management are passionate about their business – their business is a mission or a crusade.
- Management are frugal, both professionally and personally. Capital is viewed as a scarce resource.
- The CEO is unpromotional, thinks rationally from first principles, is patient and has a strong dose of humility.

Leadership and corporate culture that score highly on these attributes is as much a competitive advantage for the business as lower costs/lower prices or a strong brand. Consider that the two main resources that any company has at its disposal are management time and capital. A return on capital mindset and frugality ensure capital is directed most efficiently and avoids unprofitable projects or acquisitions. A

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decentralized approach to operational decision making, with appropriate guard rails, combined with a culture of test and learn enables quick decision making and empowers employees. It also ensures that changes in the operating environment are recognized quickly and responded to. Taken together, these qualities both reduce risk and support long-term returns.

The central purpose of meeting management face to face on a regular basis is to get to know them and the culture of the company well enough to assess these qualities. Some of this assessment can be made from reading the public filings, listening to conference calls and speaking with former employees, but there is no substitute for meeting them face to face. In the last quarter, I met with the senior management of Hotel Chocolat, Motorpoint, GetBusy and Naked Wines as well as management of prospective investments. The section below will update you on those meetings.

On a personal note, Highwood Value Partners is my own entrepreneurial venture and I get great joy and satisfaction (dare I say inspiration) from learning the stories of great CEOs and leaders, past and present. My bookshelf (and podcast library) is full of them – these historical figures provide mentorship and support for anyone who cares to listen to their wisdom.

Portfolio Updates:

Below is the usual table which summarizes key statistics on the portfolio as of September 30th. The portfolio is priced at 48 cents of my estimate of intrinsic value, the median P/E is now 9.3x and portfolio companies on average have no debt (Net Det/EBITDA of -0.2x).

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
30-Jun-23	95%	0.48x	956	-0.2x	1.0x	9.3x
30-Sep-23	**95%**	**0.46x**	**722**	**-0.2x**	**0.8x**	**9.3x**

Below are the updates on our portfolio holdings in order of their contribution during the quarter.

Burford Capital – Core Value

Burford Capital is our UK listed global market leader in litigation finance. The company makes money by funding select commercial litigation claims in exchange for a share of the proceeds if successful, and by generating fees on third party capital as the largest asset manager in this attractive niche asset class. During the quarter, Burford had significant positive news in the *Petersen & Eton Park vs Argentina and* YPF

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case. Following on from the summary judgement on liability in March, the US district court ruled that Argentina is liable for damages to Petersen, Eton Park and Burford of $16bn as compensation for Argentina's nationalisation of the plaintiff's YPF shares in 2012 without a tender offer. This ruling was a complete win against Argentina at the high end of the possible range of damages. Burford's share of the proceeds is $6bn, or more than 2x the current market cap, and is the compensation Burford is due for funding the litigation over the past 8 years. That said, this was a win-win for Petersen and Eton Park as well. In 2012, the plaintiffs had a case but no way to fund the lengthy litigation, and now they have a claim in hand with a face value of $4.8bn. I do not expect Burford and the Plaintiffs to receive 100% of face value for their claims, and I do expect Argentina to fight the judgement, however the ball has been moved down the field: liability and damages have been clearly established, which sets the stage for a final settlement between the parties.

What is more, Judge Preska who has presided over the case, issued a ringing endorsement of litigation finance, and Burford's business model as part of the court's ruling. In her words, *"The Court also rejects the [Argentine] Republic's effort to inject Burford Capital into these proceedings. This remains a case brought by plaintiffs against a defendant for its wrongful conduct towards them, and the relevant question is what the [Argentine] republic owes Plaintiffs to compensate them for the loss of the use of their money, not what Plaintiffs have done or will do with what they are owed…If Plaintiffs were required to trade a substantial part of their potential recovery to secure the financing necessary to bring their claims, in Petersen's case because it was driven to bankruptcy, and litigate their claims to conclusion against a powerful sovereign defendant that has behaved in this manner, this is all the more reason to award Plaintiffs the full measure of their damages."* This is a powerful statement by a well-respected judge on the role that litigation finance plays in the legal system and neatly summarizes the problem that Burford solves.

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. Our thesis on Protector is playing out well and we have achieved 3.5x money on this investment since inception. The company reported another good set of results for the second quarter of 2023. Net Income was up 10% driven by strong growth in insurance underwriting offset by mark to market losses in the equity portfolio. On the insurance side of the business, Protector grew premiums at 56% year over year at an 84% combined ratio. This strong growth is feeding a growing investment portfolio and float, the income from which goes to shareholders. As of quarter end, Protector had a bond portfolio of 15bn NOK invested at a 6.1% yield, which is generating after tax income of 9 NOK per share, or a 5% yield on the current share price. We have seen most of this income paid out to us in dividends over the past year. I continue to evaluate the quality of Protector's insurance underwriting in the UK as this part of the business has grown faster than my expectations. Members of the Board of Directors bought more shares in the company during the quarter and now own over 30% of the company.

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 company. We bought our shares in Q4 last year and the thesis behind our investment is available [here](). During the quarter, I visited the company's main manufacturing

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site in Cambridgeshire (which was as close to living *Charlie and the Chocolate Factory* as I could hope for). The company owns the 13-acre facility outright and I saw several indications that manufacturing capacity on the site is being expanded to meet internal estimates for volume growth over the coming years. I also met with Jon Akehurst, the CFO of the company. Jon has significant experience in optimising manufacturing and from our meeting it was clear that he sees lots to go after at Hotel Chocolat, which is why he joined the group. This fits well with our investment thesis which is based on management focusing on the profitability of the core UK operation.

Borr Drilling – Special Situation

Borr Drilling 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. The supply-demand balance for jack-up rigs continued to tighten during the quarter which is driving day rates higher in line with that thesis. Leading edge day rates are now c.$170,000 which compares to Borr's average contracted rate of $135,000. Costs in this business are largely fixed which means the change in day rate revenue directly impacts profits. If day rates were to stay exactly where they are and the company's assets were re-contracted at the current day rates, equity free cash flow would more than double. Borr is an attractive asset at this point in the cycle and increasingly institutional investors are warming up to this space. I believe we are still in the early innings with this investment given the long lead time for new supply and the returns to developers in shallow water, but I will remain disciplined as the cycle heats up.

JZ Capital Partners – Special Situation

JZ Capital is our small cap, UK listed closed-end private equity fund in liquidation. We own the assets of the fund through the equity market at a 50% discount to stated NAV and that fund is in process of liquidation and return of capital to us, the shareholders. There was very little new news in the quarter, and I continue to stay patient as the fund liquidates. We are well aligned with the two principals conducting the process (Jay Jordan and David Zalaznick). Their shares are worth $42mn at market and $86mn if they can liquidate the structure at Net Asset Value, a difference of $44mn depending entirely on the successful execution of the liquidation. The risk profile of the NAV has declined significantly over the past year as the fund has converted 40% of it's illiquid assets into cash (at a 5% premium to NAV after all expenses) and paid off debt at the fund level. This is a material change: 30% of the fund is now sitting in cash, which changes the risk profile of the liquidation. Any financial risk is off the table and there is now lower valuation risk on the fund NAV. I continue to engage with the advisors about the best use of this cash as they proceed to liquidation.

Motorpoint Group PLC – Core Value

Motorpoint is our UK listed small cap and the largest independent used car retailer in the UK. The business is run by Mark Carpenter, who owns 10% of the company. Motorpoint has the lowest costs in the industry which allows it to consistently offer lower prices on like for like product, which has resulted in steady market share gains at attractive returns on capital. We acquired our shares in Q1 of 2023 and the summary thesis on the investment is available here. I met with Mark and Chris Morgan, the CFO, at their head office during the quarter. The cyclical headwinds that allowed us to acquire the shares at a significant discount remain intense, driven largely by higher interest rates, but management are making progress in

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streamlining the operation to maintain cash flow. I was impressed with Mark in particular, who is operating the business with a strong long term owner mentality. He has 20 years of experience in the industry, knows the business inside and out and walks the walk when it comes to capital allocation. Over the past 10 years, he pivoted from using the company's free cash flow to open new locations (2014-2018) to buying back shares (2018-2020) and back to opening new locations (2020-2023). His task now is to keep operating costs low, inventory turns high and maintain a strong balance sheet while the used car market adjusts. Given the valuation of the shares in the public markets, I would expect any excess free cash flow in the next few years to be directed back toward share re-purchases. The market is placing a price on the business of c.£75mn, which I estimate is somewhere between 2x and 3x free cash flow in a normalized environment.

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. I met with Daniel Rabie, CEO, and Paul Haworth, CFO, in London during the quarter. The meeting provided good insight into management's motivations. Dan and his family own 20% of the shares in GetBusy. In addition to their equity ownership, management are directly compensated on the cash distributed to shareholders over the next seven years under the Cash Distribution Plan (CDP), likely from the sale of one of the company's assets. My interpretation is that CDP indicates that the board and management have agreed that the public equity markets are unlikely to ascribe the value to the US business that a strategic acquiror would. This has clarified the strategic path ahead. Indeed, the CDP is only meaningful to management if they distribute cash to us as shareholders of at least 4x the current price of the shares. This is a large gap between price and where the board and management see fair value for the US business. At the current rate of growth and returns on capital, management are on track to scale this business to an optimal size over the next three to four years (rather than seven). Of course, this process is no slam-dunk, and we are warehousing the execution and technology risk associated with a small software business through this process. It is my view that we are more than compensated by the gains on offer in this process. In a less optimistic scenario, the company is easily separable and the other main asset in the group, the legacy UK business, is generating the equivalent of 16% of the current market cap in cash annually on its own.

Alimak – Core Value

Alimak is our mid-cap, Swedish industrial business which operates an attractive installed base business model. There was little new news in Alimak in the quarter, so I will provide a bit more of an update relevant to the discussion on management. The company is run by Ole Kristian Jodahl, who was put in place by the largest shareholder, Latour Investment AB, a well-regarded industrial holding company in Sweden. Latour itself has delivered a 30yr 100x money return for shareholders through its active management of wholly owned industrial businesses and public shareholdings, of which Alimak is one. Ole was put in charge at Alimak after proving himself at a subsidiary of Latour called Hultafors group. At Hultafors, he acquired and integrated six businesses which more than doubled revenue and profits at prices which generated a 15% return on capital on average. Alimak is his first role as a public market CEO, which is an opportunity he wants to make the most of. Since joining Alimak, he has improved operating margins and made two substantial acquisitions – Tractel and Tall Crane – which have doubled profits. Yet,

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the jury is out on the quality of the deals he has done at Alimak as indicated by a share price that is below where it was when he joined. I am impressed with the urgency and pace of change that Ole has brought to Alimak. He has executed well on the operations – margins have improved and he has brought a stronger focus on the customer. I am optimistic on the outcome of his capital allocation decisions, but it is still early to have a strong view. In the meantime, we own Alimak at an 11% free cash flow yield with profits growing high single digits organically.

Ryanair – Core Value

Ryanair continued to execute well in the quarter. The company reported strong results for the 3 months ended June 30th in the quarter: Revenues were +40%, profits were up 4x, the cost advantage widened, they continued to take market share from weaker competitors across Europe and the balance sheet now has €1bn of net cash. The shares were down modestly in the quarter and were trading at 9.5x trailing earnings as of September 30th.

Ryanair has the kind of prototypical leadership and culture we are looking for. Michael O'Leary is one of the most talented operators and capital allocators I have come across. He has steered Ryanair for 30 years with a clear focus on reducing costs on a per seat basis to enable lower fares for customers and widening the company's competitive advantage. His cost consciousness is legendary, he leads from the front with a straight talking style and is laser focused on creating the long-term cost advantage that Ryanair benefits from. He invests countercyclically to achieve the best deals on aircraft, buying when there are no buyers and willing to sell and leaseback only when prices for aircraft are high. He is risk averse (he hates debt) and has created a culture of getting things done – he is agency and alignment personified – and through his leadership style has created a culture that is likely to outlast his tenure as CEO.

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. Sto reported H1 results during the quarter. Revenue was down 3%, profits were down 8%, cash flow was improved year over year and the business had net cash at June 30th of 18% of the market cap. Sto is run more like a private company, which has pros and cons. On the one hand, it is clear that decisions are taken with a long-term view (likely for the next generation), which means they are willing to do what is right for returns on capital over that period even if it depresses the P/L or returns in the short term. On the other hand, the business is clearly over-costed compared to competitors and management have not been as pro-active and focused on improving profitability as I would like. That said, the public market has little interest in this company and the valuation reflects this. At quarter end, we owned this business at 5x EBIT, an 11% FCF yield and a 4% dividend yield. A family-controlled competitor to Sto in Germany was acquired in the quarter at 2-3x this valuation.

Naked Wines – Core Value

Naked Wines is our UK listed online direct-to-consumer subscription wine business. Naked Wines has been the single largest detractor from our portfolio since inception. I made the mistake of doubling down on this position in early 2022 and am now determined to learn what I can from this experience. The

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company reported full year results and I met with James Crawford, CFO, and a new board member and strong voice for shareholders in the quarter. Management have executed the pivot to profit well, but it is clear the unit economics are currently worse than they were prior to Covid. The balance sheet is improving and management have line of sight on the unwind of the inventory position, which will alleviate the pressure on the balance sheet that has been so front and centre for many investors. The management and board of Naked Wines has been improved over the past six months, which has been key in my decision to continue to hold the shares. The founder of the company, Rowan Gormley, who was CEO up until the Covid period, has returned to the board as Chairman. Nick Devlin remains CEO and James Crawford has come back from an operating role to be CFO. In my view, the mistakes made by the previous management fall in the category of not thinking like investors in the business – they made a bet on the US business in cost and inventory without adequately considering the downside. Looking forward, we have a much more capable CFO, a stronger owner-minded board and a new set of guard rails that reduce the size of the bets management can make on growth. I continue to engage with management and the board as I believe there is substantial equity value they can unlock from here.

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

Sincerely,

Desmond Kingsford

<u>Appendix 1: Underlying Currency Exposure Split</u>

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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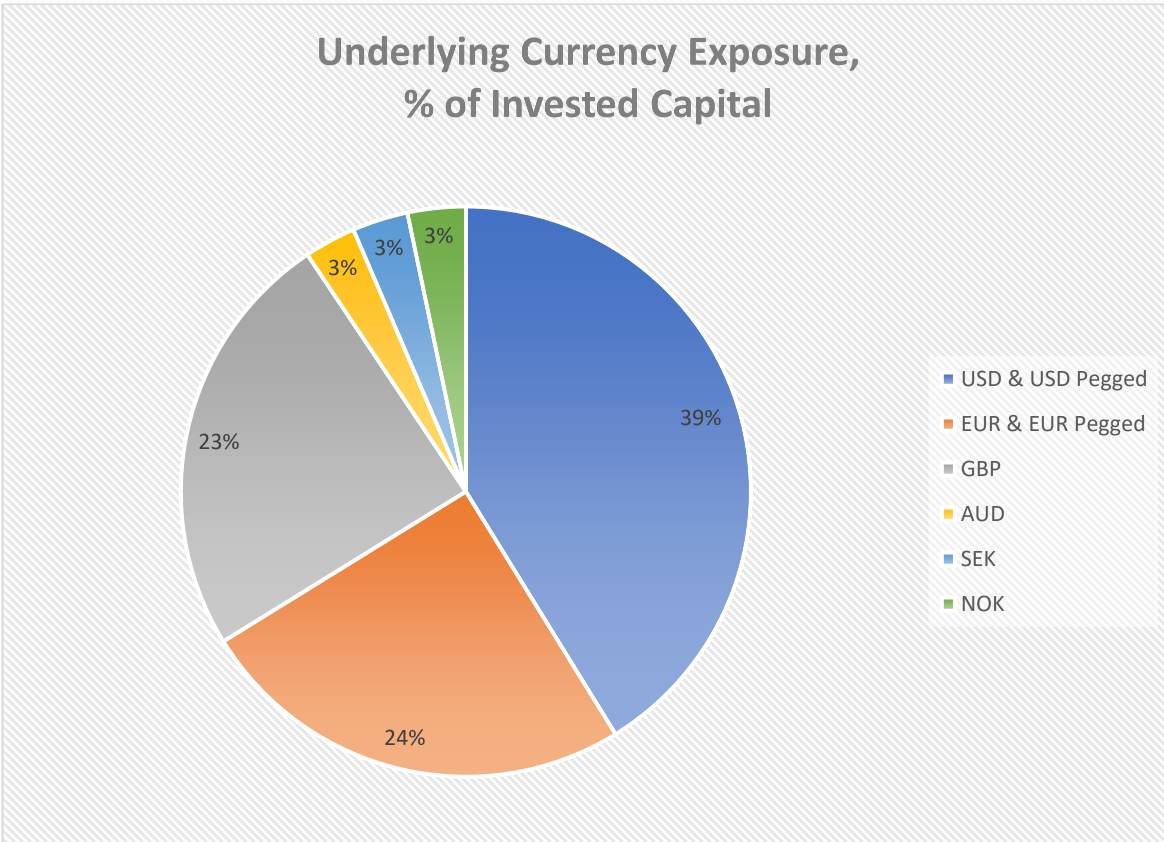

Disclaimer:

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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

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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", "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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