Highwood
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July 14th, 2022

Dear Investors,

During the second quarter of 2022, our portfolio was down 13.6% in Canadian dollars net of fees. Our cash balance was 15.6% at quarter end. The broad European equity index was down 11.7% and the Canadian index was down 13.4%[1] in the quarter.

From inception to June 30th, 2022, our portfolio is up 5.0%, which is a 1.9% average annual return net of fees with 26% of the portfolio in cash on average over that time. This compares to the broad European equity index which is down 1.8% over that same period of time.

The table below gives you a 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%
Q2 2022	**-13.6%**	**84.4%**	**68.1%**	**16.3%**	**15.6%**
Year to Date, 2022	-21.2%	85.4%	72.5%	12.9%	14.6%
Average, Since Inception [1]	1.9%	73.9%	66.2%	7.7%	26.1%
Total Return, Since Inception [1]	5.0%				

1. Inception on December 9, 2019

Equity and credit markets in developed markets are down between 10% and 30% year to date with the majority of the drawdown coming in Q2 driven by rising inflation, higher interest rate expectations and the increased likelihood of recession in major economies. The S&P 500 has had its worst start to a calendar year in over 50 years, inflation is the highest it has been since the late 1980's and consumer confidence is the lowest it has been since 2008. Given the pace of inflation, the big question is how far central banks will push interest rates up in their attempt to tame inflation and how severe the likely recession will be as a result.

In this letter, I intend to discuss what I think is the right way to think about the stock market in times like these. I will look back at lessons learned year to date and then look forward, considering the valuation of the portfolio and the opportunity set in front of us. I will then give the usual detailed discussion on each

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

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position to give you the degree of transparency and visibility I would want. Included in those updates are my thoughts on how each of our companies is positioned in the event of weakening demand or recession. I will then finish up with a brief business update.

In times like these, the most important factor to preserving and growing wealth is to own good quality, well capitalised and well managed businesses and not sell them just because the price offered for your shares is lower than what it was a day, a week or a quarter ago. The mark to market change in our portfolio simply reflects the price other (presently panicked) investors are willing to buy our holdings at. That's it, that's all.

I attended the Berkshire Hathaway AGM in May this year, and I am reminded of the analogy Buffett uses to demonstrate this point. Consider if you were a farmer owning 160 acres of land and your neighbour, who is a rather 'moody farmer' owns the 160 acres identical to your own next door. On any given day, he yells at you over the fence the price at which he is willing to buy your farm, which is also the price he is willing to sell you his at. You have been a farmer for a while and know the farming business: you know the revenue your farm generates through ups and downs, the costs of operating it and hence the profits it has generated and is likely to generate over the next 10 or 20 years. The only thing you have to do is remember that this guy next door is there to serve you and not to instruct you. You don't need the quote on your farm, but you have the added advantage that he is making this rather obliging offer to buy your farm, or sell you his, every day often at ridiculous prices.

What relevance does the number he quotes have on your willingness to continue to farm that land?

What relevance does the number he quotes have on the profits your farm will generate over the next 10 to 20 yrs?

At Highwood, we own long-term investments in the shares of companies that I believe will grow their intrinsic value at an attractive rate of return. Our collection of businesses in the core value bucket have grown their earnings or book value by 3.8x over the past 10yrs, excluding the two companies that did not have earnings 10 years ago. We have bought those shares at a price which, I believe, ensures our return from holding them over the next 10 years will be at least as good as the growth in earnings or book value per share over that time. Provided we keep the right perspective that just because there is a price offered for them every day, we are under no obligation to sell them, we are well placed to earn a very healthy return over the next 10yrs.

Portfolio Update: Wins, Losses and the opportunity looking forward

This all said, I am not giving myself a pat on the back for the returns our portfolio has generated year to date. Those returns reflect the combination of both the prices 'the moody farmer is offering to buy our farm at' and the buy & sell decisions I have made in the two and a half years since inception. Learning lessons from the mark-to-market of the portfolio is a dangerous business as it places the 'moody farmer' in an elevated position of arbiter of whether a decision was right or wrong. If the moody farmer's quote is at a discount to your purchase price, it is not necessarily a mistake and likewise, if the moody farmer's quote is at a premium to your purchase price is not necessarily a 'win'. Rather, the true arbiter of whether the capital allocation decision – to buy, hold, or sell a security – was correct, is whether the developments at the company level were in line with the thesis for making that decision in the first place, and the price paid

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for the security. Ultimately over time, the stock market being the weighing machine that it is, the market price of the portfolio will reflect the earnings power of the businesses we own, and that is what Highwood seeks to understand and make decisions based upon.

On the basis, I believe some reflection on wins and losses year to date is in order. In the wins column year to date, JZ Capital & Borr Drilling have made considerable, concrete progress in line with my theses on these investments. JZ sold assets in the quarter at attractive prices and is moving toward liquidation. Borr Drilling is seeing a substantial recovery of the offshore drilling market, which is resulting in more contracts at higher prices. Both of those shares were also up significantly in the quarter. I am equally happy with the progress Alimak, Burford, GetBusy, Protector, Ryanair and Sto have made versus thesis, despite the fact the share prices of these companies are lower now than they were 3 months ago. They are all growing profits or book value faster than my base case expectations.

The majority of the drawdown year to date has been the result of our investment in Naked Wines PLC, which is down 74% in the first half of the year. Here, I believe the thesis on the business and its potential is still broadly correct. However, I made this position too large, too quickly as the shares sold off in the first three and a half months of the year. Underlying this mistake was, I believe, an over-estimation of the operational capability of the management team who, on reflection have not been sufficiently tested through good times and bad to warrant my full trust. The CFO was appointed at the end of 2020. The CEO, who I think has plenty of talent and managed the pandemic well, has not been at the head of this business during a consumer recession. Given our risk management framework which limits position sizes at cost, I am now unable to buy any more shares in Naked Wines whatever the price offered.

It is valuable to look in the rear-view mirror to learn lessons. However, it is looking out through the front windshield, with a long-term approach that is most valuable at moments such as these. Bear markets tend to shorten investor's time horizons. The right response to bear markets is to lengthen the time horizon and consider the prospective returns from allocating capital at current prices.

And on that front, I am optimistic. There is significant forced selling out there presently and valuations have come to a level that I believe embeds very attractive returns from patiently holding the existing portfolio. The portfolio is now priced at 45cents on the dollar of my estimate of intrinsic value. As such, the margin of safety in the portfolio has never been higher. In short, it is the safest time since inception for investors, myself included, to allocate new money to the strategy. It also means the expected prospective returns from doing so are also the highest they have been since inception. The median P/E on our portfolio is now single digits, which means we are getting an earnings yield north of 10% and our portfolio remains largely free of debt finance (save for Borr Drilling, which I will discuss below).

Furthermore, the opportunity set to deploy capital into new ideas has opened up significantly. As an example, the number of companies that are trading below the value of their current assets (cash, inventory and receivables) after deducting all liabilities – an estimate of their liquidation value – is back to levels not seen since the financial crisis of 2008-2009. This is a target rich environment for a strategy such as ours.

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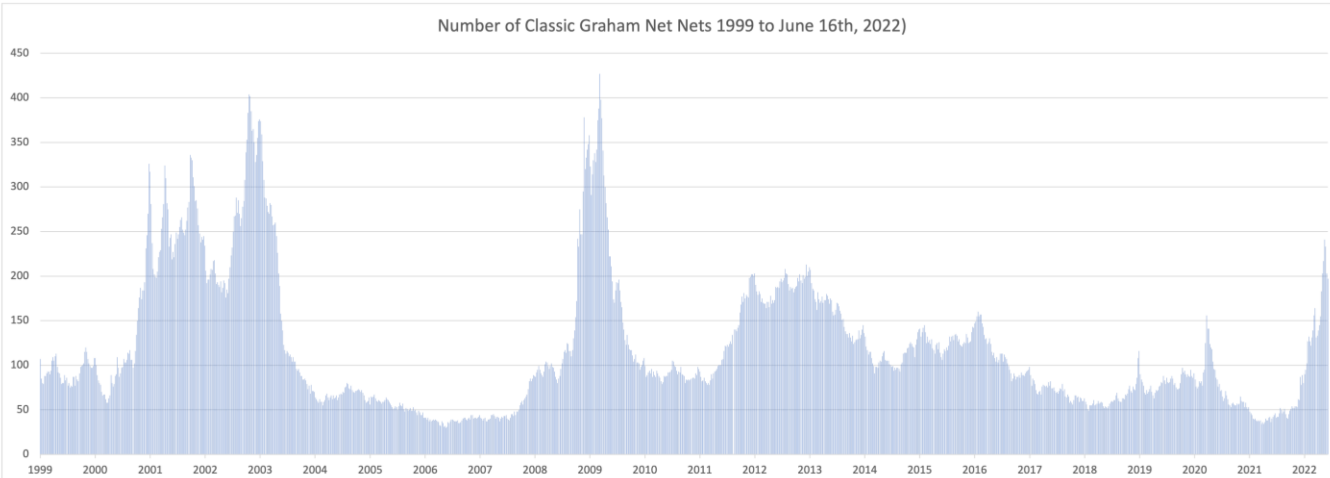

The other pocket of the market that is becoming attractive is growth businesses that have fallen 60-80% over the past year. In some cases, the baby has been thrown out with the bathwater. I am spending time looking at both areas with a disciplined, opportunistic and long-term approach to find new investments for both our Core Value bucket and our Net-Net bucket.

Portfolio Updates

The only changes to the portfolio in the quarter under review was the purchase of shares in Naked Wines in early April. I did not sell shares in any position in the quarter. The table below puts the usual numbers around the valuation of the portfolio as at June 30th. As noted, the portfolio is now priced at 45 cents on the dollar of my estimated intrinsic value and offers an earnings yield north of 10% (Earnings / Price) with minimal financial leverage (ie Net Debt / EBITDA).

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-Mar-22	86%	0.50x	1144	0.1x	1.4x	11.0x
30-Jun-22	84%	0.45x	854	0.1x	1.2x	9.1x

Below are the updates on our portfolio holdings in the quarter in alphabetical order. I have tried to give a bit more colour on each holding's economic sensitivity given the growing probability of recession.

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Alimak – Core Value

Alimak is our mid-cap, Swedish industrial business which operates an attractive installed base business model. Alimak reported another strong set of results during the quarter. Revenue for the first three months of 2022 was +11% and profits were +14%. Gross margins continued to improve despite cost inflation, which reflects the pricing power in the business. The balance sheet is strong and getting stronger: the company continues to pay down debt and is now at 0.5x Net Debt/EBITDA. Following the results, I had a call with the CEO and CFO, which was a helpful discussion on the opportunities and challenges the business faces going forward. The management are excited about the opportunities to penetrate new niches within vertical access which in their view, have the potential to more than double the size of the business over our investment horizon. Management's ambition is to replicate the success of a comparable Swedish industrial, Atlas Copco, which delivered a 25x return to shareholders over the past 20yrs (24% IRR) which was achieved through steady organic growth and using the cash flow from its leading market position in air compressors to consolidate related niches. In the shorter term, the challenges facing Alimak are the ongoing inflationary environment, which they are managing through successful price increases, and the logistics in the supply chain. To date, the facts suggest they are managing these challenges well. Despite the positive progress the business made in the quarter, the price of our shares was down 27% at quarter end. From current prices, we own Alimak at 12x Earnings and 9x operating profits, which is well below where this business would sell to a rational trade or strategic buyer.

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. We acquired our shares in Borr in February 2022 at an average cost of $2.70/share, which amounted to buying the company's assets (rigs) at less than 50 cents on the dollar of current depreciated value and 1x Earnings in the scenario that rig rates recover to the long-term average day rate. I detailed the summary thesis on Borr in my last letter to you, which is available here.

The demand for shallow water drilling rigs has improved dramatically in the last quarter driven by the renewed incentive for energy companies to invest to bring on new production. Borr is well positioned to capture this demand, which was clear from the developments in the quarter. During the quarter ended March 31st, the company was awarded ten new contracts worth $487mn in revenue. This is approximately double the rate of contracting achieved in 2021. Likewise, the day-rate price at which Borr signed these contracts was $115,170, which was 37% above the contracts awarded in 2021. Twenty of the twenty-three rigs are now contracted and the company expects to have all twenty three contracted by the end of the year. This contracting activity has given management the confidence to issue guidance that profits are likely to at least double next year. In short, the first component of the thesis is playing out as expected – demand for its rigs is coming back from depressed levels, which is driving higher utilisation and prices.

The second component of the thesis is that the value creation from this improved operating environment will accrue to shareholders. The major hurdle the company has to jump in this regard is a refinancing of its convertible bonds and senior lending facility. The company made progress on this in the quarter, but as of yet, has not agreed a final deal. As the operational environment improves, management and the board, who

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own $65mn worth of the equity, have more levers to pull to achieve a good outcome for shareholders. I remain confident a deal is likely in the coming months.

Despite the share price appreciation in the quarter, we own this business at a substantial discount to intrinsic value. As an illustration, with all 23 rigs working at the day rates achieved on the contracts signed in the first quarter, the company is likely to generate $300-$350mn in free cash flow to shareholders. At the quarter end price for the shares, this amounts to a cash on cash yield on our investment north of 50%.

Clearly, the price of oil is economically sensitive. However, the real driver for Borr is oil and gas capital investment, which is operating on its own cycle as evidenced by the past 8yrs. Over that time, consumer spending and GDP have been growing strongly while oil and gas capital expenditure has been bouncing along the floor.

Burford Capital – Core Value

Burford Capital is our UK listed global market leader in litigation finance. The company makes money from investing in mis-priced litigation claims by funding the legal costs of the claimant in exchange for a share of the ultimate award. As noted in the thesis, which was outlined here, the business invests in these litigation claims as a principal (ie on its own balance sheet) and as a manager of third party capital. In the last three months, Burford raised $710mn of new capital in third party funds and extended its relationship with a major sovereign wealth fund for additional capital commitments. This third-party fund management business creates attractive management and performance fee income[2] to Burford and is growing at 25% per annum, which is above my underwriting assumptions. The company also raised additional financing to invest on its own balance sheet by way of a $360mn bond issue at 6.8% due in 2030. Together, these additional funds and the additional corporate finance give Burford substantial new capital to deploy into mispriced litigation claims, which have historically yielded a 30% IRR to Burford.

The other major development is that the YPF claim moved into the summary judgement phase on June 23rd which means that Judge Preska is likely to give a ruling in the very near future. The risk-reward on this case looks attractive to Burford and we look forward to finding out the result in due course. From the current price, we own the core business at a 20% discount to my estimate of its cash NAV excluding the value of the YPF claims and any growth in the business from here. Burford's business has relatively low economic sensitivity – revenues, profits and the growth in book value per share is most dependent on the outcomes of hundreds of individual litigation claims, not on consumer spending or GDP growth.

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 gave an encouraging trading update in early May. During the first four months of the year, annual recurring revenue, which is 93% of total revenue, grew 19% year over year. This is impressive: revenues have actually accelerated

[2] $350mn raised for BAIF II, which earns 1.5% management fee and a 12.5% performance fee after a 5% preferred investor return with a full catch up. $360mn raised for the Burford Advantage Fund which provides a 10% preferred return to investors with Burford keeping 100% of performance over that hurdle.

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despite falling consumer confidence and a war in Ukraine, which I think reflects both lower economic sensitivity and the success the company is having driving growth in creative and under-appreciated ways. The drivers of GetBusy's recent growth have been twofold. Firstly, the company is in the process of raising prices in both SmartVault and Virtual Cabinet. The fact we haven't seen substantially increased churn as a result of the price increases reflects the value of the proposition to GetBusy's clients in my view. Second, the company is gaining traction in new verticals, particularly in asset finance, which is an attractive niche with limited competition. The only significant competitor in that vertical was acquired by Wolters Kluwer in 2020 for 7x Revenue. Perhaps they over-paid, but there is a truck sized gap between the 7x revenue Wolters paid and the current 2x revenue that GetBusy is available for in the public equity market today.

JZ Capital Partners – Special Situation

JZ Capital is our small cap, UK listed closed-end private equity fund in liquidation. The price of the shares was up 92% in the quarter on the back of a number of positive developments in-line with the thesis. Two of the JZCP portfolio companies were sold in the quarter at substantial premiums to their NAV. Flow Control LLC, which is a manufacturer and distributor of products used to connect processing line equipment, was sold for $77mn, or 3x it's most recent valuation and where it was marked in the fund's net asset value (NAV). Following that, Testing Services Holdings, which provides testing and certification services for the industrial and life sciences markets, was sold for 3.5x where it was valued in the most recent fund NAV. Combined, these asset sales have had two positive effects. Firstly, they raise the cash required to extinguish all of JZCP's debt obligations. Secondly, as noted, these sales were done at a significant premium to where they were marked in the fund NAV. As a result, the value of the fund that we hold shares in has increased from £3.35 per share at the end of February to £4.00 per share at current exchange rates. Despite the doubling in the market price of the shares from £1 to £1.92 during the quarter, I believe they are still good value today at a little less than half of NAV.

Naked Wines – Core Value

Naked wines is our UK listed online direct-to-consumer subscription wine business. The company reported a disappointing set of full year results and the price of our shares was down 53% in the quarter and 74% year to date. The results had both positives and negatives, which I want to discuss in a bit more detail.

First, the positives. The company continued to grow the number of customers as well as the revenue and profits from existing customers. Customer numbers were up 9% in the year to March 28th. Repeat customer sales were up 11% and repeat customer profit contribution was up 2%. The return on investment from acquiring the existing customer base has been attractive. Since 2014, the company has invested an aggregate of £147mn to acquire those customers. The profits from those same customers has been an aggregate of £328mn, or a 2.2x return with c.40% of the customer base less than 3yrs old (which depresses the overall return). And those returns continue to increase: the payback to date on the 2014 customer cohort increased from 4.1x to 4.4x and the story is the roughly the same across all cohorts. The company now has 266 winemakers making wine on the platform, up from 235 winemakers a year ago. The business is clearly working for both customer and supplier. Finally, Naked Wines finished up with 38mn of cash on the balance sheet and 142mn of inventory. Total current assets – those assets that are readily

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converted into cash – exceeded current liabilities by £60mn, which is broadly where this ratio stood this time last year. This is important as it gives a full picture of the liquidity the company has on hand.

The negatives were to do with the outlook for 2023 and a statement from the company's auditor noting the potential for Naked to require additional capital in the year ahead. First, on guidance, the company expects broadly flat revenue and an EBIT loss of c. £4mn. This is a change from the 22% revenue growth the business has averaged over the last 5yrs, and reflects both a more challenging environment for consumer spending (ie. a recession) and the fact that consumers have shifted to going out to drink wine as the pandemic restrictions in their core markets have been lifted. The main negative, and why the shares were down 50% following the results was the concern the auditor raised about the *potential* need for new capital in the scenario that trading deteriorates from management's budget (ie. guidance) and management do not alter the cost structure to compensate. On March 31st 2022, management signed a $60mn Asset Based Lending (ABL) secured on the US inventory of the company. The results noted that, in a downside scenario for trading this loan would not be drawable later in the year as the company would be in breach of the covenants on the facility. The fact that management put this facility in place and agreed covenants that would be breached in the scenario it would be required is, in my view, an 'own goal'. It is because this facility would not be available in such a scenario that the auditor raised the possibility of the company requiring new capital. However, management have a number of levers available to them that would reduce or eliminate the need for new external capital if trading were to deteriorate significantly. First and foremost, management can slow the rate of investment into costs and new customer acquisition expense if trading deteriorates. The company is generating £85mn of contribution profit per annum from existing customers and has historically spent all of that on costs – split roughly equally between spend to acquire new customers and corporate G&A costs. Management has discretion over spending a large proportion of these costs. Secondly, they have a buffer of £38mn in cash and £60mn in net assets with a substantial inventory position. This compares to a run-rate of contribution profits from existing customers of £85mn and a current budget for costs of the same amount. Third, if the company did need external financing, it is in a strong position to negotiate with banks to provide that financing given the strengths of the business model.

Following the results, I had a conversation with the CEO and CFO of the company regarding this situation. While I stick to my view that management have made a mis-step here, I came away with the distinct impression that they have the urgency to resolve the situation and a high degree of confidence that they can do so given the levers at their disposal.

At this point, I do not believe the thesis as it concerns the business is broken. The company has a wide and growing cost advantage, attractive economics and a large market opportunity. The shares have seen significant forced selling on the back of the results. At current prices, they are a steal if the management and board can navigate this situation, which is, I believe, the most likely scenario. That said, the credibility of the management team has been damaged. My position sizing on this investment reflected an assessment of management that was not justified. This has come to light as times have got tougher for the business. I am watching closely to determine our next steps. What is certain is that I will stick to our disciplined risk management framework.

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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. The company reported a solid set of results in the quarter. On the insurance side of the business, the company continued to grow its book at double digit rates at attractive margins. Gross written premiums grew 11% in local currencies and the combined ratio was 97%. What is more impressive to me was the investment result in the quarter ended March 31 of -0.1%, which of course included the invasion of Ukraine, the beginning of central bank tightening and an 8% decline in equity markets. Looking forward, Protector's investment portfolio is well positioned for rising interest rates. The company has 12.4bn NOK of A rated, short duration bonds and 2.4bn NOK in 32 equities trading at an estimated 33% discount to intrinsic value. The opportunity set in the corporate bond market has opened up considerably since March 31st, and as the existing portfolio matures, Protector will be able to redeploy capital at substantially higher yields. As noted in my last letter to you, every 1% increase in yields results in 15% more earnings per share net to us.

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[3]. The company has a wide moat around these returns, and the quarter just gone was replete with data points that support this point of view. The company reported full year results in mid May, which showed both a widening cost advantage and continued market share gains. In the past year, Ryanair has opened up 15 new bases and taken delivery of 61 modern, fuel efficient aircraft at prices competitors can't touch to service these new routes. Ryanair is now operating at 1.2x their pre-Covid capacity while other airlines have reduced capacity anywhere from 60% (Norwegian Air) to 30% (TAP in Portugal). Ryanair is simply filling out the gap in the market at lower costs than anyone else. Likewise, Ryanair is 80% hedged on fuel, far and away the most hedged of its competitors, which gives it further advantage over the next 12 months. Now, the major issue on most investors minds is economic sensitivity. Air travel is clearly a consumer discretionary service, demand for which declines in aggregate when consumers have less money to spend. However, I would argue that Ryanair, like other discount consumer offerings, benefits from trading down as consumers look to do what they would like to do, just at a lower cost. In every consumer recession since the company was founded, it's market share gains accelerated through recessions.

The price of our shares in Ryanair were down another 17% in the quarter to €11.28 each. Looking out a few years, perhaps post a consumer recession, the company is likely to generate between €1.60 and €2.20 in earnings per share, which puts the shares on between 5x and 6x normalised earnings at that time. This is far too cheap for a company of this quality and I believe embeds an IRR on our investment well above our hurdle rate even if we do go through a recession in the meantime.

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. The company was a new addition to the portfolio in

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

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Q3 2021 and was discussed in that letter. As noted in prior letters, the company is benefiting from higher energy prices in Europe, which drive up the cost to heat buildings on the one hand, and increased government regulation to improve efficiency on the other. The incentive for building owners to invest to improve the energy efficiency of their properties is the highest it has been in a decade[4]. This is clearly showing through in the company's results: revenues in the first three months were up 21% year over year, which is the highest rate of growth in a decade. The challenge for STO is that the majority of it's manufacturing capacity is in Germany and has a supply chain that is reliant on energy, in part from Russia. In my most recent call with Management, this was the primary topic of conversation and there are, to be frank, no easy answers. At this point, the business is not capacity constrained, but this remains a risk if energy becomes rationed through the winter. Against that, Sto very clearly plays an important role in reducing Europe's dependence on Russian gas – it provides insulation that makes buildings more energy efficient. Nonetheless, the shares, which were down 33 percent in the quarter, are now at 5.5x EBIT and offer a 13% free cash flow yield with 17% of the market cap in cash. Sto has shown remarkable cost flexibility in the past, which is part of the reason it has been able to achieve consistent high teens returns on capital. In 2008/2009, profits were down 3%. In the 2012 European debt crisis, profits were down 12%. During the pandemic, profits grew. This resilience, flexibility and an attractive starting valuation, bode well for us whatever the outcome over the next few years in an uncertain environment.

Vestas – Core Value

Vestas is the Danish listed, global market leader in wind turbine manufacture and service. The company has an attractive installed base business model with a highly profitable and competitively advantaged service business. Vestas reported Q1 results during the quarter, which showed a continuation of the trends seen in the last couple of quarters. Revenue growth accelerated to +27% in Q1 but the company is struggling to execute the orders for new wind turbines received 1-2yrs ago profitably due to a challenging logistics and the new, higher cost environment. These challenges are almost exclusively in the OEM side of the business (the manufacture and sale of new turbines). The service business on the other hand continued to chug along nicely with revenues +19% and margins of 22% in the quarter. The challenges in the OEM side of the business are also industry wide. Over the past couple of quarters, the entire wind turbine OEM industry was loss making.

What we are experiencing right now is the lag between the prices at which new turbine orders were signed 1-2yrs ago and the current cost environment for executing those orders. This situation will change as management, and the industry at large, works through the order backlog (which is c.16 months worth of revenue) and is able to increase prices on new orders to reflect the environment those orders will be executed in. Vestas' Q1 results showed good progress on this front. The average selling price on new turbine orders has increased 26% year over year.

In my view, the fundamentals of this business remain strong and the outlook for where it will be in five or ten years is either the same or better than it was a few quarters ago. Meanwhile, the price at which shares in the business are trading hands declined 25% in the quarter.

[4] As measured by the IRR on a generic project to install external wall insulation.

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Strategic, long-term investors in the space are taking note. For example, Siemens offered to buy out the minority shareholders in Siemens Gamesa Renewable Energy, one of Vestas' direct competitors, in late May at €18.05 per share, which amounts to 1.4x revenue and a modest premium to where Vestas shares are currently trading.

Business Update

It was a busy quarter here with work on the existing portfolio, investigating new ideas in the areas mentioned above and helping Anna get up to speed, which she has done remarkably well. I also spoke at the CAASA family office conference in Toronto and attended the Berkshire Hathaway AGM in May. It was a wonderful experience to be in Omaha for the Berkshire AGM. I think the largest takeaway for me was just how much gratitude there is for Warren and Charlie's wisdom and openness, let alone the returns they have generated for their shareholders. I also left with the impression that what Warren is perhaps most proud of, and what he values the most, is the trust that so many have placed in him and Charlie over the last 30-plus years. That was quite heartening for me as a manager of other people's hard-earned money.

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

Sincerely,

Desmond Kingsford

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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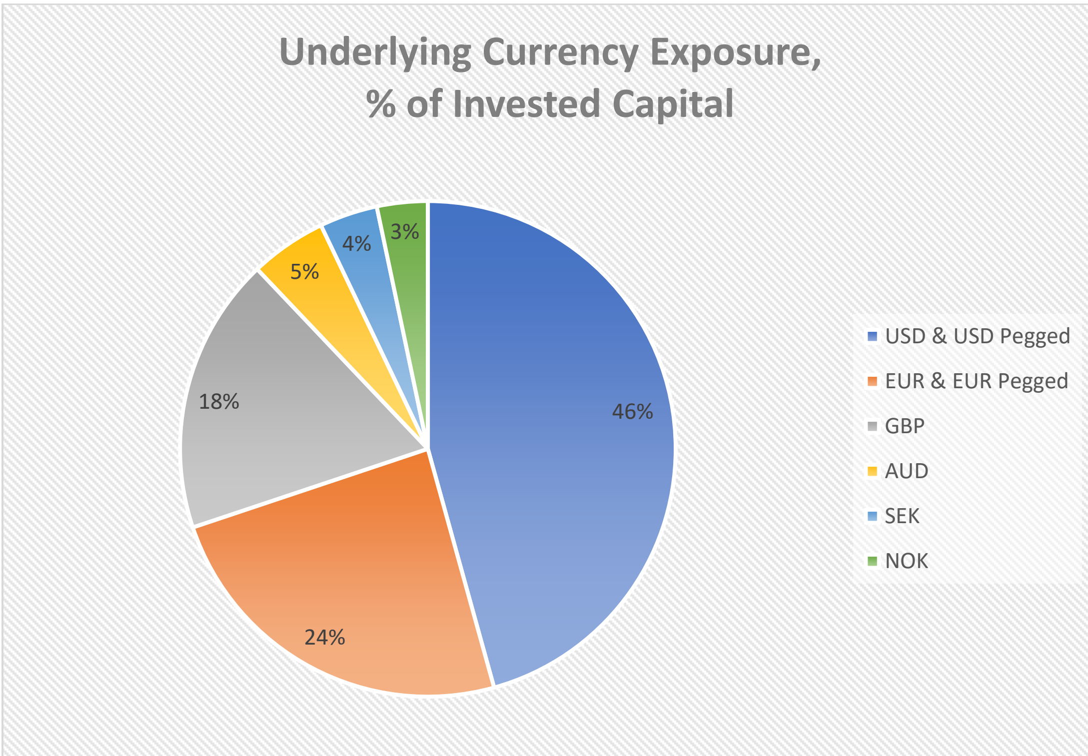

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The information presented in this Letter is not investment advice, should not be relied on as such, and should not be viewed as an investment recommendation by the Firm or Mr. Kingsford generally, or an offer or a solicitation of an offer for the purchase 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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