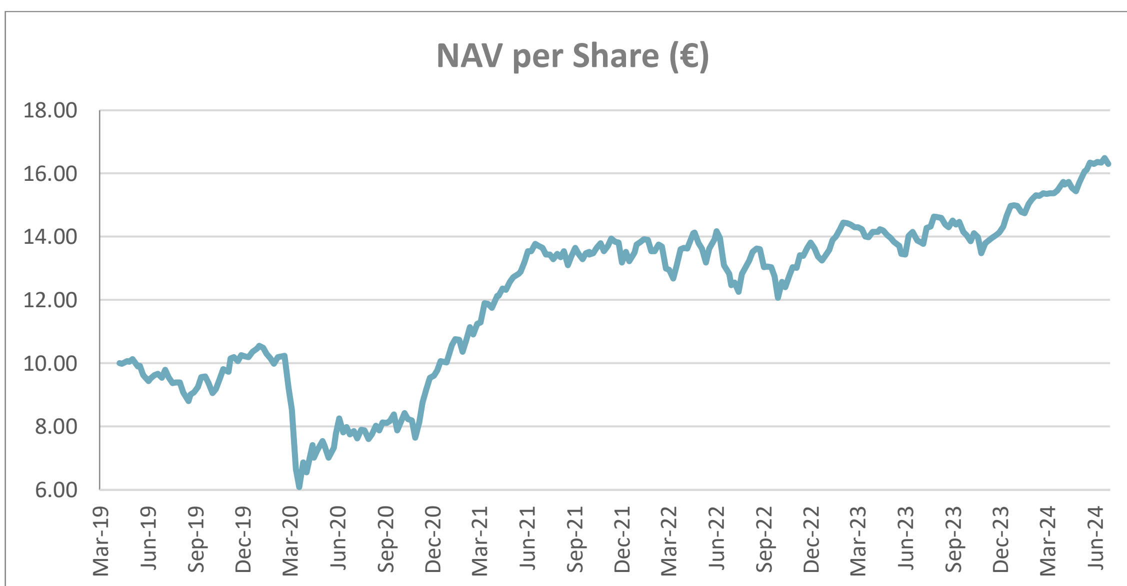
Dear fellow investors and friends,

During the second quarter the fund gained 3.7% gross of fees[1]. We do not have a stated benchmark in our Key Investor Information Document (KIID) and therefore cannot comment on relative performance. We leave it up to you to decide. We note the above number appears higher than European and global benchmarks. Inception to quarter end return was 63% or 9.8% compounded annual return. Our last reported NAV at quarter-end was 16.3 (27/06/2024), +3.6% from the closest reported NAV at the first quarter end of 15.73 (31/03/2024). We are extremely optimistic about our portfolio's prospects and believe we will reach our compound return aspiration over time. Our fund's composition is unlike any index, and we are unlikely to perform in a similar manner.



[1] Our NAV is calculated weekly by FundPartner Solutions, a subsidiary of Pictet & Cie and does not align with monthly or quarterly reporting. The gross return stated is net of taxes and fees but before fund expenses, which are currently running at approximately 15 bps per quarter at current AUM. We project this to decline significantly as AUM grows. Please see our comment on management fees.

The second quarter's market narrative was unchanged on the first quarter's: ever-hopeful rate cut expectations and the infatuation with AI. There was a bit of political twist just to spice things up a little. We turn our noses up at market darlings with extreme valuations, but we decided to try Chat GPT just to see what the hype was about. We asked Chat GPT why now is a good time to invest in our fund.

Currently, investing in value, small-cap, and international equity funds such as the COBAS LUX SICAV Palm Harbour Global Value Fund can be particularly attractive due to several factors:

1. **Valuation Differences**: Historically, value stocks (those that are typically undervalued compared to their fundamentals) are trading at significant discounts relative to growth stocks (those expected to grow at an above-average rate). The valuation gap between value and growth stocks is one of the widest in decades. For instance, as of late 2023, the price-to-earnings (P/E) ratio for value stocks was approximately 14, while growth stocks had a P/E ratio around 30. This difference of 16 points highlights an unusually large discrepancy, suggesting that value stocks are considerably cheaper.

2. **Small-Cap Opportunities**: Small-cap stocks often provide higher growth potential compared to large-cap stocks, as they can expand more rapidly from a smaller base. Currently, small-cap stocks are also trading at attractive valuations. Historically, small-cap stocks have outperformed large-caps over the long term, and the current market environment presents a potential for reversion to this historical trend.

3. **International Equities**: International equity markets, especially in emerging markets, are trading at significant discounts compared to U.S. equities. For example, the P/E ratio for emerging markets is around 12, compared to the S&P 500's P/E ratio of about 25. This 13-point difference indicates that international equities are undervalued relative to U.S. stocks, offering potential for higher returns as global economies recover and grow.

4. **Economic Recovery**: As the global economy continues to recover from the impacts of the COVID-19 pandemic, value and small-cap stocks, as well as international markets, are well-positioned to benefit. Historically, these sectors have outperformed during periods of economic recovery and expansion.

Historical Valuation Differences

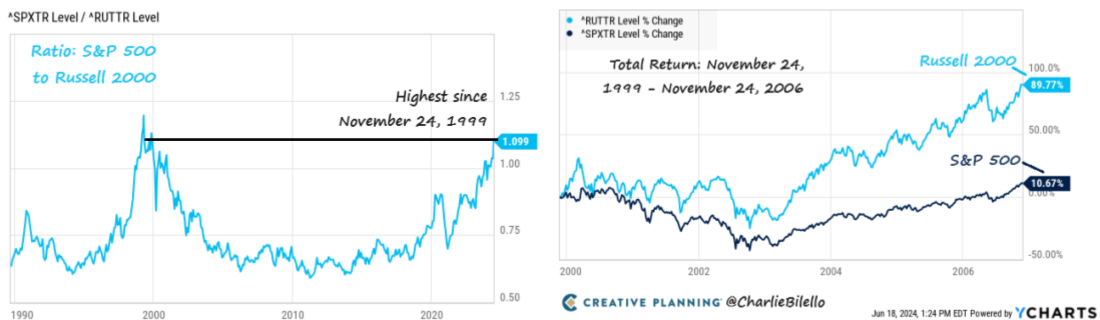
- **Value vs. Growth**: Over the past two decades, the average P/E ratio for value stocks has been around 15, while for growth stocks it has been around 20. The current gap (14 vs. 30) represents a much larger differential than the historical average.

- **Small-Cap vs. Large-Cap**: Historically, the small-cap P/E ratio has been close to that of large-caps, often trading at a slight premium due to growth potential. Currently, small-caps are trading at a discount, with P/E ratios around 16 compared to large-cap P/E ratios of 20-25.
- **International vs. U.S. Equities**: The historical P/E ratio for international markets has typically been 2-3 points lower than U.S. markets. The current gap of 13 points is significantly wider than this historical norm.

Given these factors, now may be an opportune time to consider investing in value, small-cap, and international equity funds as they present potential for significant upside given the current valuation disparities.

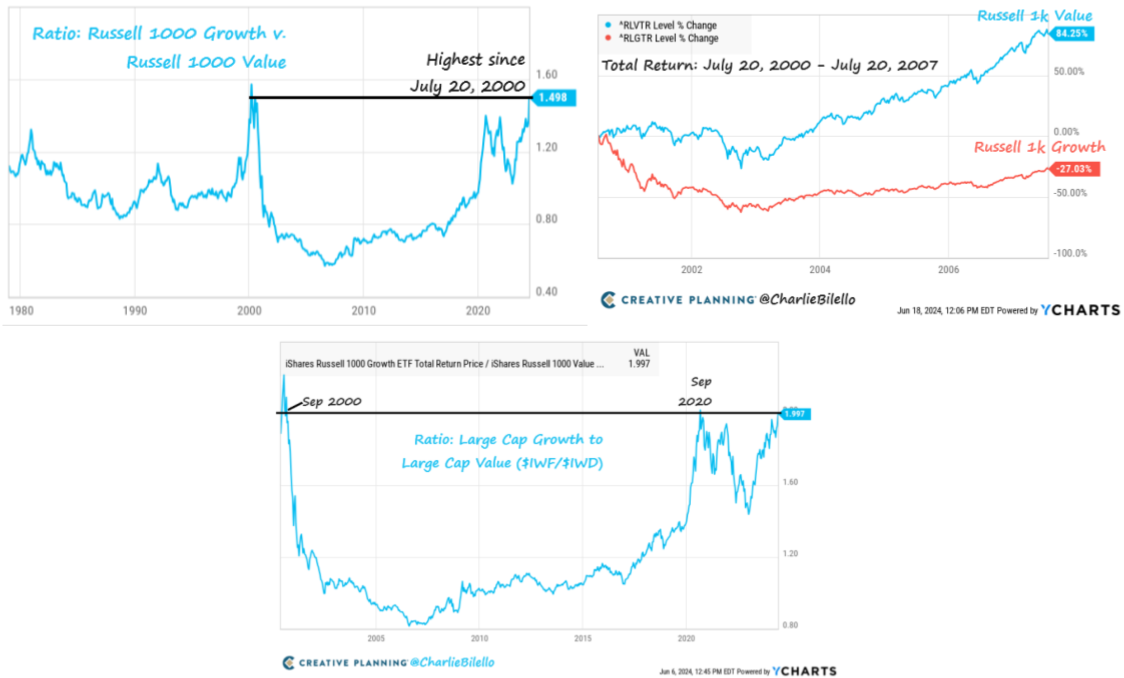
That does sound reasonable although not too impressive. We think now is a great time to be contrarian. We have no idea when the current trends towards megacap/AI lose steam, or why, but usually betting on mean reversion pays off. Here are some charts and comments we like courtesy of Charlie Bilello's The Week in Charts (6/23/24)[2]. To quote:

"The biggest US companies have been dominating the equity market for well over a decade. As a result, the outperformance of US large caps (S&P 500) over small caps (Russell 2000) is now at its most extreme level since November 24, 1999. What happened in the 7 years following the 1999 extreme? Reversion to the mean. Small caps would outperform large caps by a wide margin, with the Russell 2000 gaining 90% versus an 11% gain for the S&P 500.

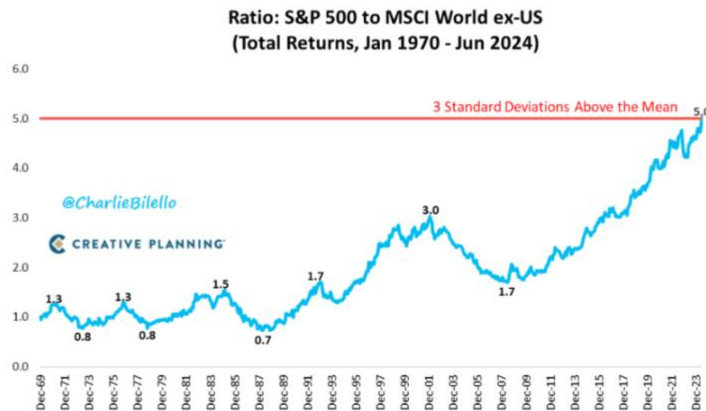


Growth's outperformance versus Value is now at its highest level since 2000 and not far from the record high in March 2000. What happened in the 7 years following July 2000? Reversion to the mean. Growth stocks declined 27% while Value stocks gained 84%.

[2] Bilello Blog



US stocks have been outperforming international stocks for 16 years running, and by a huge margin. The result: we're now 3 standard deviations above the mean in terms of historical US outperformance, a record high.



There seems to be a number of factors that rhyme with the tech bubble in the late 1990s. One of the newest ones we have heard about is capital expenditure. One of the reasons the mega cap tech stocks are so well loved is that they were mostly relatively capital light, high return on capital businesses. With AI, that seems to have changed. Goldman recently put the capex for the top four hyperscalers at $357 billion in the past

year[3]. Time will tell if the returns on this new, significantly higher capital will be competitive. If we had to bet, investing in capex starved commodity stocks versus AI darlings, with unrestrained capital at the moment, would seem a good call, even despite our preferences for wide moat businesses. In fact, capital cycles matter too.

At the end of June, SK Kaken held its 68th Annual General Meeting. It was a lively event where many shareholders shared their frustration and asked questions of the board and management. Many were arguing for better capital allocation. We have sent a letter to the board, which can be found on our website, where we ask them to use their cash-rich balance sheet more efficiently as well as to improve investor relations.

At quarter-end our portfolio had more than 103% upside to our estimated NAV and was trading at a weighted average P/E of 8.8x, FCF/EV yield of 16% and a return on tangible capital of 30%.

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Contributors		Detractors	
Telekom Austria	116 bps	OCI NV	-38 bps
Ginebra San Miguel	110 bps	International Game Technology	-32 bps
Solvay	56 bps	Piraeus Port Authority	-28 bps
Caltagirone	49 bps	Dalata Hotel Group	-19 bps
LNA Santé	47 bps	Wickes plc	-17 bps

The top contributor during the quarter was Telekom Austria (+20.2% +116 bps), the Austrian and Eastern European telecoms group, introduced in our first quarter 2023 letter. First quarter results were a bit below consensus with EBITDA[4] increasing 4.2%, but management confirmed their 2024 outlook with underlying growth in line with guidance, driven by recent price hikes in Austria and Bulgaria. Leverage (excluding IFRS16) stayed in line with yearend at 0.4x net debt to EBITDA, which makes it one of the least levered telcos in Europe. The increase in share price is likely due to the upcoming dividend payout as well as increased brokerage cover. While broker's targets are not very ambitious, any casual reader will realize that this company is stinking cheap with the lowest valuation of peers on all metrics as well as the lowest debt level, highest growth

[3] Bloomberg
[4] EBITDA: Earnings Before Interest, Taxes, Depreciation and Amortisation

and paying out only 40% of its free cash flow compared to 92% on average for the group. We think there is considerable upside to the dividend next year and there could be M&A optionality or a special dividend to re-lever the balance sheet.

The second largest contributor was Ginebra San Miguel (+27.8% +110 bps), the Filipino gin and spirits company which we introduced in our second quarter 2021 letter (+32.2% on market, -3.3% FX). Ginebra continued to report great numbers with sales growing at 16.8% year-on-year, boosted by both volume and price increases, and operating margins sitting at an 18-year high of 15.07% during the first quarter. Cash flow generation remains very robust; hence cash continued to build up in the balance sheet with a PHP 13.3 billion net cash position (or 20% of the market cap at quarter end after the recent rally). Cash accumulation allowed the management to increase the dividend by 20% (from 0.75 ordinary plus 1.75 special to 1.5 ordinary plus 1.5 special per quarter) following last year's 82% dividend boost (from 0.375 ordinary plus 1.0 special to 0.75 ordinary plus 1.75 special per quarter). Despite the recent hikes, the payout ratio is only 50% of net income and given the strong balance sheet and little need for capital expenditure, we believe this can go higher. In spite of the rally the shares remain deeply undervalued in our view. After owning the company for the past four years, we have finally been able to procure some gin. We will update next quarter with our tasting notes.

The third significant contributor was Solvay (+32.2% +56 bps), the Belgian soda ash and peroxide chemicals company, which we introduced in our fourth quarter 2023 letter. The shares were helped early in the quarter as Greenlight Capital's David Einhorn pitched the stock at the New York Sohn Conference[5]. The shares continued to do well when they reported their first quarter figures and whilst sales and EBITDA fell year over year, volumes finally had a positive effect after seven quarters of declines, though prices decreased due to lower energy and raw material costs. Free cash flow came in strongly and we expect it to increase throughout the year. The stock continues to trade on a double-digit free cash flow yield and a 7.5% dividend yield on what we believe are trough earnings.

The fourth largest contributor was Caltagirone (+15.9% +49 bps), the Italian holding company with its main asset the listed cement company Cementir, which was introduced in our first quarter 2021 letter. Cementir, which accounts for approximately 50% of the NAV[6], reported in line numbers for the first quarter with volumes up but revenues and EBITDA down by 11.2% and 18.1% respectively, which indicates some

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[5] Greenlight Capital Presentation
[6] Net Asset Value

pricing pressure as energy and raw material prices declined. Management blamed the still weak residential market and adverse weather conditions. Despite the macro-related uncertainty, management confirmed yearend guidance. Generali, 24% of NAV, reported numbers ahead consensus. We believe that the in-line performance of the main underlying assets and particularly the significant dividend increase (from EUR 0.15 to EUR 0.25 i.e. 67%) drove the share price higher. It is worth noting that Caltagirone remains one of the cheapest shares in our portfolio on a sum-of-parts basis.

The fifth contributor was LNA Santé (+16.1%, +47 bps), the French nursing home and healthcare facilities operator, which we introduced in our fourth quarter 2022 letter. In a challenging environment, LNA reported solid business momentum in all its healthcare businesses and territories, posting 6.9% organic growth. The French nursing home business grew at 6.3%, mostly due to authorized price increases. Growth should continue as occupancy rates are rising in five underperforming Elegance establishments in the Ile-de-France and PACA regions. Sales in Healthcare Services rose by 7.4% on the back of higher volumes and partly helped by reclassification of the tariffs. Management expects to maintain solid growth over the coming quarters despite the uncertain regulatory environment and tariff negotiations as they reiterated full year guidance. Unfortunately, the French elections, which were announced after first quarter results, adds further uncertainty. Overall, we feel that LNA is slowly being recognised as an exceptional nursing home operator in France and we are willing to wait for further upside.

The top detractor was OCI NA (-10.2%, -38 bps), the Dutch nitrogen fertilizer and methanol producer, which we introduced in our second quarter 2019 letter and further updated in our fourth quarter 2021 letter. OCI reported sales and EBITDA decreases of 11% and 12% respectively mainly due to lower nitrogen pricing globally, following a strong 2023. The pricing effect was partially offset by improved operational performance. In December 2023, OCI announced the divestment of its 50% equity holding in Fertiglobe and 100% of its equity in Iowa Fertilizer Company LLC to ADNOC[7] and to Koch Ag & Energy Solutions respectively, for a combined $6.2 billion. Both transactions are expected to close in late 2024. We believe the move lower is likely just impatience for the deals to close with some deal risk, particularly for the US asset. We believe the stock remains fundamentally undervalued with or without the deals and are happy to wait for the outcome.

[7] Abu Dhabi National Oil Company P.J.S.C.

The second largest detractor was International Games Technology (-7.9%, -32 bps), the Italian-American lottery and gaming machine technology provider, which we introduced in our first quarter 2020 letter and further updated in our first quarter 2024 letter. This marks the third quarter in a row where IGT has been a top detractor. It is worth noting that it is still the 3rd largest contributor to the fund's performance since inception. The company announced first quarter results which were generally in line with consensus and management expectations. We believe the stock is not trading on fundamentals but rather drifting aimlessly due to the deal mechanics with US taxable investors avoiding the stock until after the spin-off. There was incrementally positive news with Allwyn and IGT agreeing to keep their consortium intact to bid on the upcoming Italian lottery contract. We believe this derisks the greatest competitive threat. While the risk remains, the stock may continue to underperform until the deal is closed, we would rather stay invested with significant upside than try to time market movements.

The third significant detractor was Piraeus Port Authority (-13%, -28 bps), the Greek port operator which we will introduce in this letter. Despite the ongoing macro and geopolitical challenges, PPA managed to improve performance as compared to the first quarter 2023, mainly due to the upward trend of the Greek economy. Given that approximately 40% of EBITDA is derived from the Pier II & III terminals which are closely related to Cosco's activity through the Suez Canal (Volumes were down 11.4% in the first quarter), reporting an improved performance is at least impressive. PPA is completing the first stage of their mandatory concession investments with a cash-rich balance sheet, accounting for 26% of its market value. We believe the stocks reversal during the quarter was due to a meagre payout of "only" 50% for the dividend (raised from EUR 1.04 to EUR 1.34 or +28.8%) where we think the market was hoping for a more substantial payout. We believe this will likely come as they finish their growth projects in the next year or two, which should push the stock higher.

The fourth significant detractor was Dalata Hotel Group (-10.5% -19 bps), the Irish hotel operator. RevPAR[8] reported in April 2024 for the first four months of the year was 4% behind 2023 levels driven by supply dynamics in key markets and a lower number of events, partially mitigated by strong corporate demand. However, the trading environment has improved in May and June with RevPAR 3% ahead of 2023 levels. Management remains optimistic about the upcoming summer period, following good demand indicators, including growing air traffic forecasts and busy event calendars. The management remains focused on their UK growth strategy with a total of 10 hotels

[8] Revenue per available room

having been added since 2022 and a further four will open in 2024. The market probably remains skeptical about the supply/demand dynamics particularly in Dublin, but the current rate of supply additions seems manageable. Despite the growth forecast and durable performance during the recent challenging years, Dalata's shares trade below the net value of approximately £1.4 billion (£6.2 per share) of its hotel and real estate assets, primarily located in Dublin and London, which doesn't look right. The valuation is even more interesting if you think that the asset value excludes approximately €42 million post rent EBITDA in 2023 from the lease portfolio.

The fifth largest detractor was Wickes Group (-9.1%, -17 bps), the British home improvement retailer, which we introduced in our first quarter 2022 letter. Wickes reported for the first 16 weeks of 2024 a continuation of trends from the fourth quarter 2023, with volume growth in Retail but a decline in Design & Installation (mainly Kitchens). The group's like-for-like sales were down 4.2% compared to the same period last year, with 0.6% increase for retail and 18.2% decrease for Design & Installation, which was explained by a high order book in the same period last year and a challenging market for larger ticket purchases. It looks like the post covid correction in Kitchen sales, the slow housing market and the particularly poor weather has slowed the business over the past few quarters. Nevertheless, the like-for-like performance of the Design & Installation is a difficult number to digest. Management decided to increase the focus on lower-priced kitchens and broaden their product offering. During the quarter, Wickes completed the acquisition of majority stake in Solar Fast, a leading solar installation business, to expand their energy efficiency product offering. Overall, the management confirmed the challenging trading environment but kept the full year outlook unchanged. Wickes continues to hold net cash after some challenging years and needs better trading for the operational leverage to work in its favour.

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Piraeus Port Authority (PPA GA)

Ports are competitively advantaged businesses due to the geography, water depth, surrounding infrastructure and governmental and environmental permissions. It is relatively hard to build a new port from scratch. Piraeus Port is located at the crossroads of Europe, Asia and Africa, being the natural port of Athens and Greece's main gateway. It is the largest port for passenger traffic in Europe and one of the largest in the world with a total throughput of 18 million passengers per year. It is the fifth largest in Europe for container throughput. The port has critical linkages in Greece between the mainland and the islands. It is also the first European port after crossing the Suez Canal.

The container terminal has annual capacity of 1.1 million TEUs[9] with infrastructure able to accommodate the largest container carriers, with a total pier length of 1,150 meters, a maximum depth of 20 meters (Ultra Large Containerships have 15.2 meters average draft with the largest having 17 meters) and a total storage area of 72,400 square meters. According to the management, Piraeus Port is the only port that can handle four mega containerships simultaneously in Europe. The car terminal is one of the biggest hubs for transit cars for the Eastern Mediterranean, Black Sea and North Africa, with throughput of 650 thousand vehicles per year, including all the major automakers. PPA has a strong presence in the cruise industry with three passenger terminals, up to 11 berths, 240 bus slots and one helipad. PPA also manages five dry-docks for ship repair activities, a 10,000 square meter logistic center, and real estate assets, both in the port and non-port areas.

PPA SA[10] is the legal entity that operates the Port of Piraeus. The Greek Government and PPA SA signed an initial 40-year Concession Agreement in February 2002, by which the Greek State transferred its exclusive right of use and exploitation of port zone land, buildings and facilities of Piraeus Port to the company. In November 2008, the Concession Agreement duration was extended by 10 years to 2052. PPA SA currently pays the Hellenic Republic an annual concession fee of 3.5% of consolidated sales with a minimum of €3.5 million.

In 2008, PPA SA wanted to upgrade Pier II and build Pier III to expand capacity. They invited bidders to help them finance their expansion plans and improve port utilization. Following an international tender, PCT SA[11] which is a Greek subsidiary of Cosco[12], was awarded with a 35-year concession agreement for an initial consideration of €50 million and PPA would receive a fixed annual consideration until 2021. The agreement was replaced by the payment of variable consideration of 24.5% of revenues plus a 12 million flat fee from PCT.

In April 2016 the Hellenic Republic Asset Development Fund, the major shareholder of PPA SA, and Cosco entered into a Shares Purchase Agreement for the acquisition of a 51% stake for an enterprise value of €280 million (€256m equity value or €21 per share)[13] and committed to a €293.8 million mandatory investment program over five years. In

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[9] Twenty-foot Equivalent Unit
[10] Piraeus Port Authority SA
[11] Piraeus Container Terminal Single Member SA
[12] Referring to all China COSCO Shipping Corporation related entities
[13] Reuters

October 2021 Cosco increased its stake from 51% to 67% in exchange for €88 million plus €11.9 million in accrued interest and a letter of guarantee of €29 million.

Under the Concession Agreement between PPA S.A and the Hellenic Republic, the company is required to implement €293.8 million of mandatory investments for the First Investment Period and €56 million for the Second, while additional voluntary investments amount to €167 million. Until the end of 2023, €155,5 million of mandatory investments have been made, which can be split into €75,3 million for completed projects, €70.6 million for projects under construction and €9.7 million for prepayments. Of the remaining €138.3 million, the €103 million are related to the passenger terminal expansion which is 95% EU funded. Based on management expectations, PPA has approximately €60 million capex over the next three years that should be funded by cash flow.

The key business risks are a decline international trade and specifically trade with Greece and the southern Mediterranean region. Geopolitics is another clear risk, for example the Houthi attacks on shipping in the Red Sea are clearly affecting volumes as it is the first major port after the Suez crossing. At the moment, this is somewhat tempered by a strong Greek economy and the fact that modifying the container transshipment and distribution network cannot be done in a very short period of time as there are long-term contractual agreements with terminals for better pricing and clients have their own preferences.

Overall, we think we have a competitively advantaged business that is finishing a large investment program, while still maintaining approximately 25% of its market cap in net cash while trading at double-digit free cash flow yield. We like the risk reward, and we believe a larger dividend payout will be achieved in the coming years.

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As stated in our previous letters, we are currently not charging a management fee until the fund reaches a larger size. The founder's class management fee will then be only 1% of assets. We do not charge entry or exit commissions.

Our focus is and remains on the portfolio, but we do need to grow our assets to a sustainable level. Please feel free to share this letter with any potential investors.

We have a commercial agreement with Cobas Asset Management to distribute our fund in Spain. You can now open an account and place orders with them. For more information, please contact them via phone or email. In the future, we hope it will be

possible via their website. You can reach the Cobas team at +34 91 755 68 00 or international@cobasam.com

Our fund can be invested in through both European international central securities depositories: Euroclear and its FundSettle clearing platform and Clearstream through the Vestima fund clearing platform. Our fund is registered for distribution in the UK, Spain and Luxembourg including for retail distribution.

Currently the following financial institutions in Spain are distributors: Renta 4, Ironia, Lombard Odier, Creand as well as many other institutions working through the main platforms in which the fund is available upon request: Allfunds Bank and Inversis.

In the UK we are offered on the AJ Bell low-cost platform ajbell.co.uk and can be part of an ISA or pension.

Our fund is also available on SwissQuote swissquote.com where almost any nationality (ex-USA) can open an account without local Swiss taxes being an issue.

If you have any issues finding our fund or wish to get more information about us and our process, please contact us at IR@palmharbourcapital.com

Our fund is being offered as part of a Spanish pension value-orientated fund of funds. Please follow this link to find out more.

We thank you for your ongoing support. We continue to believe this is a great time to be a value investor and are very excited about the medium-term prospects for the current portfolio.

In other news, Konstantinos' baby girl was christened in June followed by a seaside cocktail party to celebrate the day, and Diana is enjoying having her mother staying with her for the summer.

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Yours faithfully,

Palm Harbour Capital

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