

Third Quarter 2016

As of September 30, 2016	Q3 2016	YTD Inception	
WBCMP gross	3.95%	3.95%	3.95%
WBCMP net max fee (1.25%)	3.64%	3.64%	3.64%
<i>iShares Core S&P 500 ETF (Total return)</i>	3.84%	3.84%	3.84%

Portfolio Commentary

For the 3rd quarter White Brook Capital's Model Portfolio ("Portfolio") returned 3.57% net of fees vs 3.64% for an easily investable S&P500 ETF. At quarter end, the Portfolio held 21 companies with the largest 10 positions consisting 55% of the portfolio. As always, the Portfolio is somewhat concentrated and may not track with the S&P500 over short and long time frames.

One quarter does not represent a sufficient period of time for an investor to evaluate his or her performance and be justifiably pleased or disappointed and I am not. Over short time frames, sentiment rather than fundamentals can have an outsized effect on investment performance. During the third quarter, I believe that market participants generally doubted the bull market but believed they had to stay invested resulting in excessive punishment for companies who reported even slightly blemished earnings while earnings beats were similarly, but oppositely rewarded. The Portfolio's performance reflects this reality with an unusually high number of stocks that appreciated or depreciated by over 10% in the quarter.

From a portfolio perspective, the effect on the Portfolio of industry allocation was favorable throughout the quarter, while individual stock performance, particularly within the healthcare industry in August, was unfavorable. Across industries, in general, more heavily debt laden investments lagged debt light investments.

The top performers in the quarter were Acxiom Corporation (ACXM), Integrated Device Technology (IDTI), and Dolby (DLB).

The worst performers in the quarter were Amsurg Corporation (AMSG), Blackhawk Networks (HAWK), and Realogy (RLGY).

I continue to be confident in White Brook Capital's strategy and the individual investments. In the current market environment companies with greater than average volatility: financial, commodity, and companies with higher than average debt are at the lowest relative valuation on a price to book basis versus the market. A sizeable portion of the portfolio is invested in companies with those characteristics.



Source: FactSet, UBS Quant.Universe is MSCI World. Trailing Price/Book using last reported book value

This is an unusual situation.

I believe that uncertainty regarding further global central bank actions and Saudi Arabian oil policy are the reasons for the unusual depression. The Model Portfolio owns stocks of companies with bright prospects and with stock prices that I believe to be divorced from the underlying economic reality. It would not surprise me if more than one of the stocks that we currently own becomes much less volatile as investors better understand the health of the underlying business and the business model, but in the meantime, daily volatility is high. The segment's cheapness bodes well for the Portfolio's future.

Market Outlook

As always, there are broadly five investment alternatives one can hold at any time; cash, cash-like alternatives, debt, equity, and real estate - of which all but the last can be invested in through your investment account at White Brook Capital.

I continue to believe the risks for fixed income instruments in particular are elevated compared to the potential reward. While the Federal Reserve has raised expectations for an increase in the Fed Funds rate during the fourth quarter, globally low and negative interest rates dramatically skew the fixed income market. While I believe I and other market participants have an understanding of the bounds of Federal Reserve action, I don't believe market participants can effectively handicap European, British, Japanese and Chinese authorities' actions. None takes place in a vacuum, and their interaction can have far reaching and unpredictable impacts. Corporate issues, of course, use the aforementioned skewed government debt markets as an anchor point to determine their own pricing, but also trade in markets that are often opaque and illiquid as well, making the market still more susceptible to shock. At current prices, I believe the probability that shock is negative is elevated.

US Dollar held cash should be expected to devalue at the rate of US inflation over the next year, somewhere between 1-3%, while cash like alternatives are similarly difficult to predict to fixed income markets in this era of central bank induced negative interest rates and the upcoming Brexit.

In equities, I continue to believe that the market is supportive of investment with a subset of stocks providing good risk/reward. I believe the market as a whole has the ability to slowly appreciate in a slow growth, rising fed funds rate environment, but believe owning all sectors in that environment is not wise.

The Detractors

In addition to Amsurg which will be the *In Spotlight* idea/investment this quarter, Blackhawk Networks, and Realogy Holdings were the largest detractors to the Portfolio's performance. Unlike the other 10% moves in the quarter, Blackhawk delivered solid results during their 2nd quarter.

Blackhawk is a prepaid, gift and incentive card provider that benefits from the dual tailwind of greater loyalty and incentive card penetration amongst retailers who use it to incentivize both customers (loyalty) and their salesforce (employee satisfaction) and increasing use of credit vs cash in everyday transactions. Blackhawk's differentiating intellectual property is the reach of their prepaid and gift card distribution network, the array of offered gift cards, and their technological breadth and depth through the technology stack. While all companies have holes in their offerings, Blackhawk's is relatively complete and allows them to roll up this highly fragmented industry while eliminating costs.

As I'm sure you've noticed, merchants are currently converting from magnetic stripe credit card payment systems to EMV systems that use a security chip. While credit card processors like Mastercard and Visa usually bear the burden for credit card fraud, at this point, the failure to convert systems shifts the burden merchants.

Early this year, Blackhawk negatively surprised the Street by forecasting that due to delays in merchant adoption of chip systems, some merchants would stop selling high denomination gift cards. They predicted it would impact their business, eliminating growth in their US gift card segment in 2016. They guided for normal sales to resume in the fourth quarter of 2016 and into 2017. On the second quarter call that takes place during the third quarter, they beat earnings in part by doing better than expected on the EMV affected sales – the stock rallied nicely after earnings.

Blackhawk's stock suffered in September when Ingenico, a provider of EMV point of sale technology, joined Verifone Systems, it's primary competitor, in guiding down the second half of 2016 based on a relaxation of EMV fraud chargeback rules especially amongst small merchants thereby delaying adoption of EMV systems. The stock suffered during the third quarter while it was an open question as to whether Blackhawk would be seriously impacted by the delay - the company reported its 3rd quarter results during the writing of this letter – it will not.

At the same time, during the 3rd quarter, due to an accounting change earnings estimates were reduced by ~\$.85. Despite the change not impacting cash flow, sell-side analyst expectations for this and future years were adjusted. The act of reducing those expectations triggered quantitative red flags for those who heavily incorporate or exclusively use a quantitative computer driven methodology. The stock sold off strongly as a result. White Brook's view is that the accounting change is immaterial and that the true question is whether gift card sales will resume on their previous trajectory. We believe it will and that trading at below ~15x cash flow, the stock has upside that exceeds White Brook's hurdle rate.

Another large detractor to performance was Realogy Holdings. Realogy Holdings is the largest real estate brokerage company in the country and is technically an international company although the vast majority of their revenue is US based. They operate under familiar brand names: Coldwell Banker, Century 21, Sotheby's, and Better Homes and Gardens amongst others as owned agencies as well as franchises. In the second quarter, the Company missed expectations primarily on slowing revenue growth amongst their



owned operations which are concentrated in metropolitan areas, as well as by paying higher commissions to their agents. I believe they have engaged in efforts to help their agent revenue split which will become apparent in 2017, but that on a wider basis, the market is valuing Realogy today as if it was a cyclical or being severely disrupted. Instead, the Company has an extremely high return on invested capital and will be cash flow positive even in a housing slowdown similar to that endured during the depths of the Great Recession. While its disruption by technological players is possible, I believe it far more likely Realogy will adopt and optimize new technologies (as they have with Zip-Realty) and be a beneficiary rather than a victim of new technology. As they use their prodigious cash flow to pay down debt, I believe investors will recognize it for the “bond proxy with upside” that it is and the stock will appreciate at a rate far beyond White Brook’s requirement.

Housekeeping

Before the Amsurg Corp *In Spotlight*, a relatively extensive amount of housekeeping that I want to make sure clients who don’t care to read another write up will see.

First, after speaking with industry experts, I’ve decided to move the official inception date of White Brook Capital’s Model Portfolio to June 30th/July 1st to make it easier for current and prospective clients to compare the portfolios’ performance to others’.

Second, White Brook Capital LLC’s address and phone number has changed. While mail and phone calls still forward to the new address and phone number, please note the new information in the header of this letter. White Brook has refiled its ADV with the relevant regulators to reflect the change of address and phone number and will send copies of the ADV to clients when we receive notice of their official acceptance.

Finally, in rulemaking this summer, the SEC indicated that in the future, investment managers who offered different prices for different services would undergo intense scrutiny to ensure that advisers were not steering clients towards expensive services against their best interest. When I designed White Brook Capital’s fee structure, I did so with the intent to charge fair prices. With interest rates so low, I didn’t think it was appropriate to charge the same fee for the management of fixed income assets as for equity. I don’t believe I’ve steered any of you towards greater equity exposure, but I find myself in contradiction to the SEC’s guidance.

In all respects, White Brook intends to avoid impropriety in appearance as well as letter **and** spirit of the law. While I don’t believe harm has come from the fee structure so far, the Wells Fargo debacle currently in the news underscores the potentially negative impact incentive structures can have over time and I intend to avoid anything that resembles that. Therefore, I have simplified White Brook’s fee structure, offering one rate with one breakpoint regardless of the underlying asset class that is invested in. I believe the new fee structure complies with the all current and future SEC guidance, will result in no change in current fees to clients, and will be advantageous to clients in the future. In order to make the new rate effective, however, I will have to resubmit White Brook’s investment management agreement to you. If you choose not to accept, White Brook will cancel its trading authority and our relationship will be resolved, but I believe you will find the new structure attractive. Please do reach out if you find the new terms unacceptable.

In Spotlight: Amsurg Corp

As previously mentioned, Amsurg (AMSG) was the biggest loser in the portfolio in the quarter.

A fundamental tenant of White Brook’s investment philosophy is that outsized returns are obtained by investing in leading companies that will benefit from a significant industry or company specific change. Amsurg (AMSG) will benefit from both. Amsurg’s name itself is in transition. Born as a rollup of **ambulatory surgery** centers, over the past three years the company has aggressively pivoted towards the fast growing physicians’ services segment, first through the acquisition of Sheridan Healthcare in 2014 and then with the not yet closed merger with Envision Healthcare. During the fourth quarter, Amsurg will take Envision’s name and be the largest physicians services provider in the country. White Brook believes the stock is over 50% undervalued over 2-3 years.

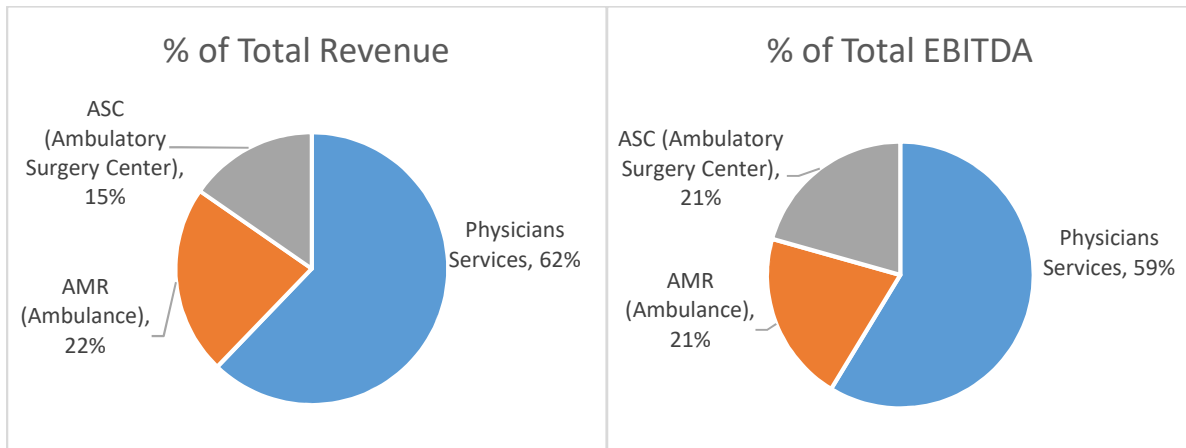
Why Cheap: During the third quarter, there were a number of developments that impacted investor sentiment regarding both Amsurg, and the healthcare facilities space more generally.

1. Amsurg’s shareholder base consisted of investors who appreciated the simple and attractive ambulatory surgery center business and tolerated the physicians’ services business. The merger with Envision, announced late in the second quarter, reconfigured the company, establishing it mainly as a physician’s services company and many investors exited as their thesis changed.
2. Envision Healthcare missed street expectations on their second quarter 2016 report while Amsurg beat expectations but lowered guidance due to delayed closings of a few of their tuck-in acquisitions.
3. Amsurg downgraded its expectation of Envision’s EBITDA generation by 5% and decreased its expectation of growth by a couple percent.
4. Health insurance companies reduced their participation in state sponsored individual exchange programs putting at risk the programs’ continued existence and health care coverage for millions would be users of Envision’s services.
5. Procedure growth at healthcare facilities industry wide slowed – reverting to Pre- Affordable Care Act low single digit growth.
6. The Epipen pricing scandal increased fear of further healthcare regulation.

It is White Brook’s belief that the first three issues that impacted Amsurg/Envision directly were both more impactful to the stock price and more transient than the latter three which will prove to be long-lasting, but have a dull but mitigatable impact. I further believe that Amsurg’s stock more than discounts the worst possible impacts of those issues.

Company Description:

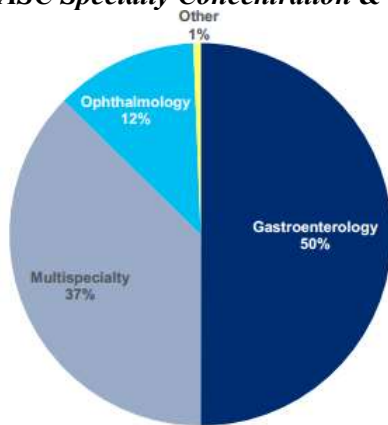
The Company will operate in three segments.



AMR (Ambulance services): Envision’s Ambulance Services is the largest provider of ambulance services in the country providing ~3.6mm transports a year. While some sell side firms have called for the division to be spun off, the capital requirements for the division are modest and client retention rates are in the high 90% range. It is a solid cash flow generator. In the fourth quarter of 2015 Envision, further consolidated the industry by purchasing Metro, which it realized during 2016 had mispriced several contracts. Over the course of 2016, it has renegotiated or wound down uneconomic contracts which will provide a tailwind to 2017 earnings. While earnings should “catch up” over the next two years as contracts normalize and costs are optimized, low single digit revenue growth should be expected from the division excluding any acquisitions. There is potential upside to that forecast from selling on the back of the enhanced physician services suite that will go to market after the deal closes.

ASC (Ambulatory Surgery): Legacy Amsurg owns or operates over 250 Ambulatory Surgery Centers (ASC) across more than 30 states in partnership with physicians and mostly in competition with hospitals and hospital owned facilities. Historically, AMMSG generally owned 51% of the facilities they operated, partnering with physicians in the facilities although increasingly they are selling part of their stake to hospital groups. While Amsurg must deconsolidate the revenue as a result, impacting consolidated earnings and cash flow, the deconsolidation improves the returns of the facility. ASC’s are physician friendly, payor friendly, and patient friendly by being more lucrative for doctors, cheaper for payors, and providing a more pleasant experience for patients and doctors.

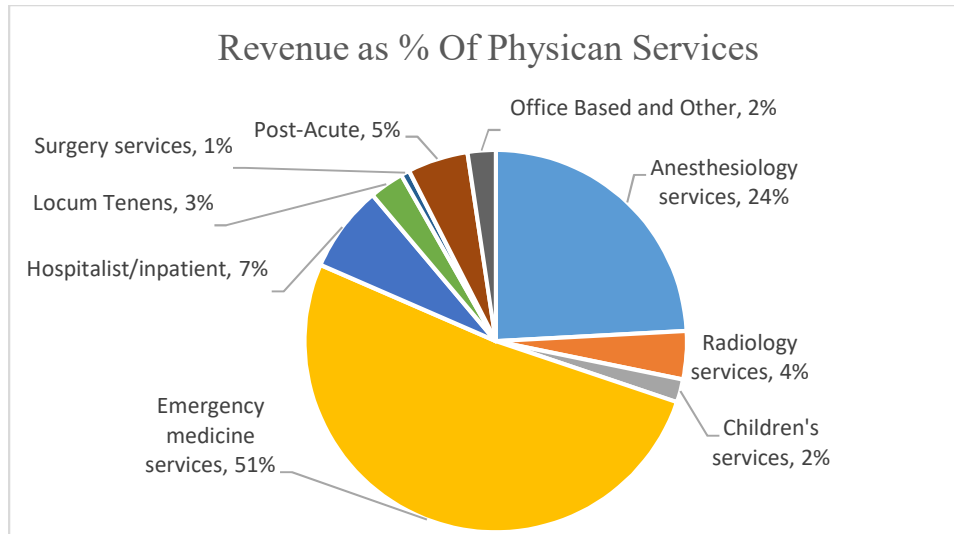
ASC Specialty Concentration & Place in Industry



Business	Industry Size (\$ Revenues)	AmSurg Share
Gastroenterology	\$3bn - \$4bn	10% Leader
Ophthalmology	\$2bn - \$3bn	5% Leader
Multi-Specialty	\$5bn - \$8bn	Top 5
Total	\$10bn - \$15bn	ASC Opportunity

Physician Services Operations

Envision and Amsurg’s EmCare and Sheridan Healthcare subsidiaries provide physicians services operations. EmCare focused on being an outsourced Emergency Department for hospitals, while Sheridan’s primary focus was anesthesia practices.



Physician Services operations provide clinical resources and handle administrative support functions for its healthcare professionals, allowing them to focus on providing quality medical care. The companies employ non-clinical support staff to manage administrative functions, including client and payor contracting, billing and reimbursement, employee benefits, technology support, regulatory compliance, professional liability and other administrative activities associated with supporting a modern-day physician group practice. Their healthcare professionals receive competitive compensation, job stability and the opportunity for upward career mobility on its physician management teams.

These services are typically provided through exclusive agreements signed with hospitals, ASCs and other healthcare facilities under which the companies are responsible for recruiting and employing physicians and other healthcare professionals. For its hospital clients, the companies provide hospital-based clinical services under contracts that range from one to five years and provide for termination upon 30 to 120 days' notice. These agreements generally grant the company the right to directly bill third-party payors for services. Where necessary, healthcare facilities supplement payments from third-party payors when reimbursement is insufficient to cover the costs and generate a reasonable profit, although those subsidies can be reduced by contracting for multiple services.

The combined company will have limited concentration among existing clients and client retention rates for both companies are in mid 90% range. For each healthcare facility, the Company will appoint a supervising physician who assumes an on-site leadership role with respect to all aspects of the services.

Thesis: The merger of Amsurg and Envision creates a cross-selling physician services powerhouse that will take advantage of payment changes to hospitals and physicians to grow quickly over the next several years. The Company also has embedded operations that produce significant cash flow that can be sold to accelerate growth or return capital to shareholders.

1. **Cross-selling opportunities abound:** The merger puts together two companies with a history of providing outsourced hospital services across several complementary verticals. Even in the absence of broader industry change, the two companies are able to achieve revenue synergies by cross selling their offerings where they already have a relationship with the hospital customer (only 10% overlap). With the ability to share administrative costs of multiple department operations at a single hospital, the combined company can achieve acceptable returns at prices that neither entity nor a competitor could offer on their own. There is an opportunity to sell into

current customers as well as address new customers who weren't interested in a single offering but are more interested in an extensive bundle providing a multiyear runway of abundant growth opportunities.

- 2. Payment bundling will pressure hospitals to outsource more services:** The core tenant of Medicare payment reform is to eliminate the agency problem that exists when compensation is divorced from outcome. By bundling services, linking it to outcomes, and capitating payment, Medicare reform shifts risk from the payer to the providers. This is a difficult situation for hospitals whose profitability and therefore ability to tolerate negative outcomes widely varies. For many, margins are thin and their ability to absorb the financial repercussions of bad outcomes are low. For them, Envision's attractiveness is twofold.

First, Envision has the systems and scale to competently and compliantly negotiate with a variety of payors and vendors and provide data to the government easing the administrative burden.

Second, the Company's breadth of operations and extensive data set and experience in a variety of settings allows them to more accurately estimate improvements and deliver on their best practices. The inclusion of Evolution Healthcare, a very small, but fast growing capability of Envision that provides post-acute care that can track and improve outcomes in the out of hospital setting helps hospitals achieve compliance with Medicare reform's goals of lowering costs by preventing recurring hospital visits.

Over time, my expectation is that accountability will be formally pushed from hospitals onto their outsourced providers and codified in their contracts. Large institutions like Envision (the largest post-merger) will act like a hospital insurance company, providing services and absorbing negative margin scenarios while earning a steady premium. In that scenario, Envision's size translates into an enhanced capability to absorb negative outcomes and is a competitive advantage.

- 3. Physician payment legislation will force physician decision making:** In April 2015, MACRA was enacted to replace the Sustainable Growth Rate formula that determined Medicare payments for physician services. Previously, congressional action was periodically required to prevent a 20% cut to physician payments.

Similar to Medicare reform payment bundling, MACRA ties quality outcomes through two different schemes. Merit Based Incentive Payment System (MIPS), which replaces the current fee for service system, but attaches quality, cost, practice improvement and patient education metrics that can positively or negatively effect a payment multiplier; and advanced alternative payment model (APM) which is a bundled payment option.

MIPS, the default under which most physicians will fall initially, has the ability to radically change physician incentives. Currently, most physicians are paid based on volume. Under MIPS, however, physicians are directly compared to each other within specialty and region with underperformers penalized as much as 9% of their pay, and outperformers equally rewarded.

If certain requirements are met physicians can take part in the APM scheme which results in an immediate bonus of 5% and removes the potential for negative payments from being on the

wrong side of the curve. However, APM schemes capitate payment transferring the risk for outcomes to physicians and its integrated partners.

Physicians are generally weary of working directly for a hospital. According to a Physicians Foundation Survey completed from April to June 2016, over 50% are currently not familiar with MACRA and therefore to my mind unlikely to be familiar enough to understand its implications, instead relying on their compliance with meaningful use or PQRS reporting to ensure compliance with MACRA's reporting requirements that kick in January 1, 2017.

As physicians focus on the effects on their payments kicking in in 2019, I believe it's likely many will seek to make one of two decisions.

First, they could select out of accepting Medicare patients. While this works for certain wealthier suburbs and specialties, it's unlikely to be a widespread solution. While I have no insight into commercial payor decision making, I imagine a physician's decision to self select out of a ranking system would impact those negotiations.


Second, they can join a physician services company like Envision that provides more stability and acts or facilitates inclusion in an APM. By joining an APM, the physician opts out of a forced ranking and his revenue per procedure increases by 5% (in a vacuum). Envision will likely take a significant percentage of that 5% boost, but it makes the economics of joining a physician services company easier.

My assumption is that physician practices will select the second option and will begin to focus on that decision making process in late 2017 and 2018 as they plan for 2019, and the potential impact of being ranked will have on their revenue and reputation.

Physicians seeking out Envision is a great scenario for Envision. Agreements with hospitals take a long time to bear fruit. By acquiring physicians - a shorter negotiation - Envision is able to become the de facto provider of service and can use that foothold to grow within the hospital. Additionally, it's a "pull" sale rather than a "push" sale, requiring much less of Envision's sales infrastructure and may result in growth in hospitals previously unknown to be suitable.

4. **Option Value:** The ambulatory surgery center business is a great business on its own, as is the ambulance business. While Ambulance services may have a place in post-acute care as well as pre-acute care, I think it's likely that Envision sells or spins the ambulatory surgery center business. First, I believe Envision will accelerate the pace of JVing the centers with the local hospital systems as that benefits the physicians' services segment as well, but will hit a natural limit. The business may become more impediment than help to Envision's relationship with hospital systems and the ~\$2.5bn its worth can be used to pay down debt, return capital to shareholders, or purchase another physicians services company with expertise in another attractive vertical such as neonatology.

Even if I'm wrong about the impact of Medicare payment reform in its ability to accelerate Amsurg/Envision's growth, the Company is inexpensive, has multiple levers to drive growth, and has supportive end markets in many different scenarios. Even in a down market, and having to bare the volatility I like the stock's prospects.



I appreciate your time, investment, and interest. As always, if you have any questions or concerns or just want to chat, please do not hesitate to reach out.

Sincerely

Basil F. Alsikafi
Portfolio Manager
White Brook Capital

All investments involve risk, including loss of principal. This document provides information not intended to meet objectives or suitability requirements of any specific individual. This information is provided for educational or discussion purposes only and should not be considered investment advice or a solicitation to buy or sell securities. The information contained herein has been drawn from sources which we believe to be reliable; however, its accuracy or completeness is not guaranteed. This report is not to be construed as an offer, solicitation or recommendation to buy or sell any of the securities herein named. We may or may not continue to hold any of the securities mentioned. White Brook Capital LLC and/or their respective officers, directors, partners or employees may from time to time acquire, hold or sell securities named in this report. It should not be assumed that any of the securities transactions or holdings discussed were or will prove to be profitable, or that the investment decisions we make in the future will be profitable or will equal the investment performance of the securities discussed herein.