

Third Quarter 2019 Quarterly Commentary

Performance, net	3Q '19 PF	Inception
WBCP	8.74%	8.74%
S&P 400	3.57%	3.57%

*Inception of White Brook Capital Partners was August 16, 2019
Performance figures are provided by Ultimus Fund Advisors
Performance is net of all realized and accrued fees*

On August 16th, White Brook Capital began managing the White Brook Capital Partners Fund (“The Fund”). Separately managed accounts will continue to be managed essentially pari-passu with the Fund and for those who were clients before the Fund’s launch. The Fund’s fee structure is more expensive than that charged to early investors currently invested in SMAs – because of that and because of the uniformity and greater accuracy that can be applied to the Fund and its metrics, the Fund’s returns rather than the SMA composite’s will be mentioned in these commentaries.

Concurrent with launching White Brook Capital Partners, White Brook added a principle to its risk management policy – it will now limit the portfolio’s investments in a single sector to under 45% of the Fund’s assets. This is a significant change as the portfolio was over 60% invested in information technology companies at times over the past two years. There’s never been a shortage of investment opportunities across sectors, but the growth of passive investment vehicles and sector-based trading has enhanced sectors’ short-term volatility and depressed performance even while value was being created. Given the surplus of investment opportunities across sectors, we believe spreading our investments across more sectors to be a prudent step. I believe the change should dampen some of the portfolio’s volatility without limiting the potential upside.

During the quarter, White Brook also began managing a dividend portfolio for a client seeking an income oriented portfolio but that was disappointed with what the bond market provided. While some of the investments may overlap with the Fund’s investments, the dividend portfolio is meant to be an extremely low-turnover, all capitalization, all industry, relatively diversified portfolio (20+ positions) that provides yield in a world where bond portfolios do not provide yield commensurate with risk. It may include ETFs, funds, and individual stock positions. It currently yields in excess of 5%. I recommend it for clients who would have otherwise invested in corporate bonds – and believe it should be considered similarly - a portfolio diversifier that produces income and is intended to be held for years without meaningful change. It still endures all the risks associated with stocks, but at these prices, it’s not clear that bond funds aren’t more susceptible to similar risks. Please reach out if interested.

As foreshadowed in the last quarterly letter, we made several new investments during the quarter. The new investments have meaningfully changed the portfolio’s valuation – it has never been cheaper, and the dividend yield never higher. The companies added to the portfolio have been on the farm team for some time and was time to bring them into the portfolio.

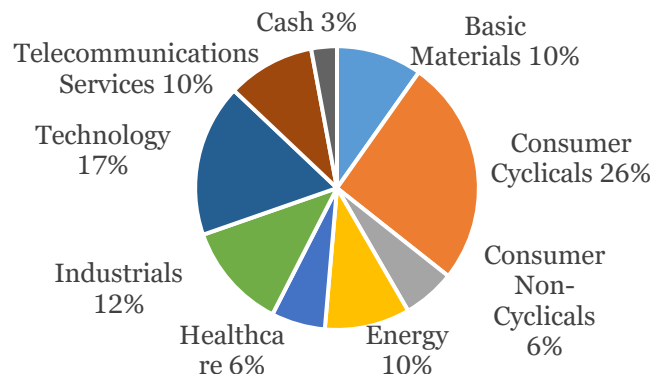
I'm happy that midway through the quarter the financial sustainability of a company's business model began to matter again. In September, value stocks had what quantitative factor investors have called a "5 sigma" day of outperformance. Similar moves in the past have historically set up a change of regime where value stocks outperform growth stocks and vice versa. Given the massive outperformance of growth over value over the past decade, returning to a historical relationship should result in significant outperformance for value portfolios such as the one we hold.

Portfolio Commentary

At quarter end, the Fund was 97% invested across 11 positions. For the partial quarter, the Fund was up 8.74% net of realized and accrued fees vs the S&P Midcap 400 up 3.57%. The portfolio, at quarter end, also had a dividend yield of 2.34%.

Top contributors to the Fund were Box Inc (BOX), Undisclosed Long G, and Undisclosed Long B. Top detractors from the Fund were Natus Inc (NTUS), Discovery Networks Inc (DISCA), and First Solar (FSLR).

Allocation by Sector



On a sector basis, our investments in the consumer cyclical, technology and industrials sectors were the top contributors, while our healthcare, telecom and energy investments were the largest detractors.

We entered three new positions during the quarter, COTY Inc (COTY), and two undisclosed positions and exited Keysight Technologies Inc (KEYS) after another solid earnings report, earning over 100% since our entry a year and a half ago.

Major Developments in Selected Investments

Box, Inc (BOX) – Box roundtripped during the quarter, first trading down and then back up after Starboard Value, a very credible activist, publicly took a stake in the company. Starboard has taken a position in several of my investments over the past decade. At White Brook, late last year they went active

in Monotype and before that they had been active in Integrated Device Technologies (IDTI). While I don't always agree with their recommendations, they are usually thought out, and they have been remarkably successful in producing gains for shareholders when engaging with a management team.

I suspect that their plan at BOX is similar to what it was at IDTI. At IDTI, they took a stake in April 2012 at a price of \$7.70, received board seats in June of 2012 and asked and received the CEO's dismissal. They installed a new CEO to cut costs and change the company's M&A strategy from one of acquiring new technologies, to disposing of them before bringing in another CEO to rebuild the company as they exited. They entered the company at ~\$7.70 and exited in March 2014 with an approximately 40% gain. I entered personally at a price of ~\$6 in 2010 based on what I believed to be multiple growth drivers and an impressive intellectual property portfolio. It was, later, amongst our first positions at White Brook, and entered the Concentrated Portfolio at ~\$24. We sold when the Company was later acquired by Renesas for \$49 in late 2018.

At Box, I believe they will ask for and receive a board seat or two – the former COO and current CFO seats are two low value seats currently where they could bring perspective to what is otherwise a solid board. I believe they will agitate for shareholder friendly behavior like a share repurchase while bringing greater clarity to the company's cost structure and reporting. The Company has already increased their margin guidance since Starboard took a seat – a development that was largely overlooked by investors. Their involvement should make Box a win-win, where in the event of an earnings miss and a low stock price, the pressure on the company to accept an acquisition offer increases, while an increase in the stock price benefits investors directly. I believe we'll benefit by remaining long-term shareholders.

First Solar (FSLR) – First Solar traded down with the rest of the solar group on the back of a decline in the price of natural gas and the national average price of electricity which traded near the bottom of their 52 week ranges. I believe the impact to be seasonal.

Groupon (GPRN) – Groupon traded down on the back of a WSJ article that predicted the company would buy Yelp, Inc (YELP). While I believe the prospective deal may be plausible, the disappointed activist in the center of the article, had a quick hit, quick pay off, destructive, plan focused on a big share repurchase. It was bad activism and I think the author of the article was likely mistaken to report it. Amongst other data, a board member bought stock in the open market during the period where he would have known of a potential acquisition. That is illegal and therefore the deal, as reported, implausible. The market didn't reason it out, however.

During the quarter, PAR Capital Management also increased its position to 9.9% and received approval from the SEC to increase the position above 10% in October. Activism now runs through the rational long-term investors at PAR Capital – a positive development.

On the substance of the rumor, depending on the price and resulting structure of the deal, I could regard a potential deal favorably. While neither business is particularly in investors' favor right now, a deal might highlight Groupon's extremely cheap valuation, eliminate a partial competitor, and give the combined entity a differentiated capability.

Natus Medical (NTUS) – Natus had a strong quarter, even while it underperformed after the Fund's launch. The company's results were slightly better than expectations and continue to disprove the short seller's accounting fraud thesis.

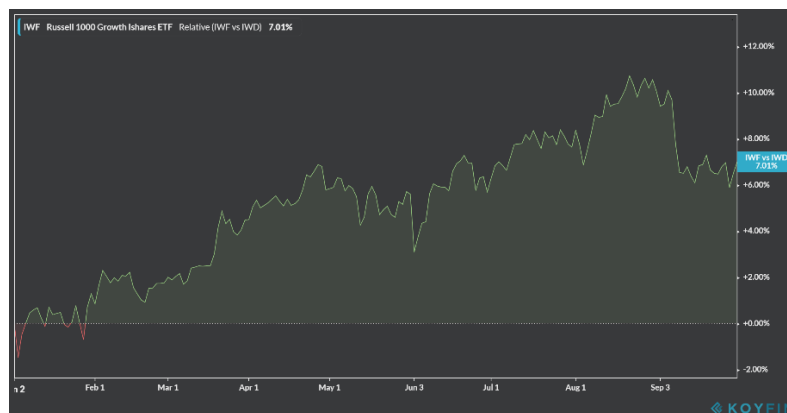
New investments: We entered three new positions during the quarter. Two of the positions are not yet fully sized and therefore I will delay commentary until the Fund takes a full position in each.

Market Commentary

Macroeconomic factors were more pronounced than usual during the quarter.

- 1. Value stopped underperforming growth stocks.** In September, for the first time since 2016, value stocks outperformed growth. This has been a rare occurrence over the past decade resulting in a stretched relationship where growth stocks are unusually expensive and value stocks unusually cheap relative to each other.

Growth's outperformance has been a historical outlier and may be starting to correct

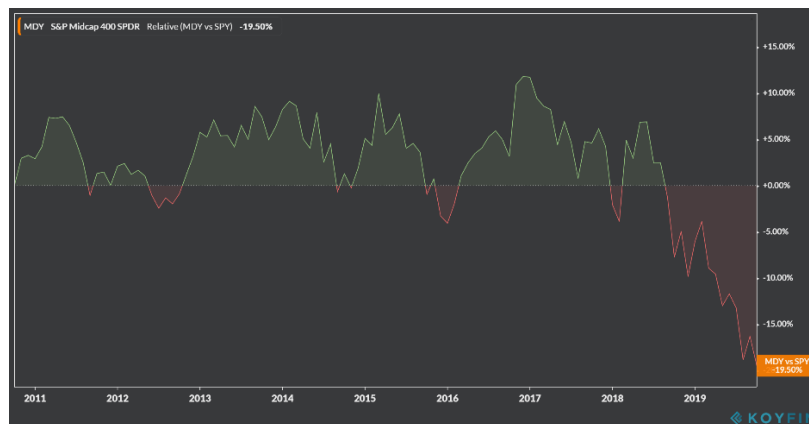


The cause of value's outperformance is unclear. With \$15 trillion dollars of global debt yielding a negative interest rate and rates likely near a floor in the US, some market commentators point to value's historical outperformance during a period of increasing interest rates. Others point to value's historical outperformance at the end and beginning of an economic

cycle. Others point to optimism about a trade deal with China favoring more industrial stocks which have been very depressed. In my view, the 200%+ rise in the S&P500 since the financial crises has been distrusted, with naysayers creating a consistent wall of worry for the market to climb. Growth stocks with obvious growth felt safer than slower growing companies. At one point, valuation becomes its own catalyst, however. Good assets, trading at very low prices ultimately stop trading at low prices when investors pause and reevaluate their invested portfolios and the valuation of their investment options. The, at least temporary, impairments of much ballyhooed recent IPOs - Uber, Lyft, Peloton, Slack, Dropbox, PagerDuty, Zoom, Marijuana Inc, and failed IPO, WeWork, may have sobered a few heads, and led a few to return to an era where a business' near term economics matter.

The recent underperformance of midcapitalization stocks is also ahistorical. White Brook, as a midcap manager, is set to benefit should midcap stocks revert to their historical performance rather than the extreme underperformance experienced for the last couple years.

Midcap has severely and ahistorically underperformed large cap in 2018 and 2019



With the launch of the Fund I certainly feel like we're buying very low.

- 2. The repo market broke.** Because the wounds were not mortal, September's repo market breakdown was considered a technical oddity, whose ramifications are underappreciated in my view. In short, the Fed stepped in and lent money to banks overnight because there wasn't enough available credit available for banks to lend to each other. Blame for the failure has been put on regulations, the cash needs of corporations to pay their taxes, and a treasury auction. But the real culprit was that a majority of the excess capital is held by only a few banks, and JPMorgan's aggressiveness in mortgage originations in a low interest rate environment tied up more capital

than expected. While all banks are ultimately responsible for their overnight cash needs, the concentration of capital means fewer decision makers and a higher probability of market failures. That it was a market away from the general public and that the Federal Reserve already had a mechanism in place to rectify was a saving grace, but I expect the break up the banks crowd to in time use this as evidence of a larger problem.

- 3. The 10-year and 2-year treasury yields inverted.** Popularized as a forward indicator after the Financial Crises, the 10-year/2-year inversion has predicted each of the last 5 recessions, but without predicting the time until onset, nor the depth of the next recession. In almost every case it was over a year later and not investing during that period would have led to significant missed returns.

Inverted yield curves have preceded most past recessions



Date			S&P500
Inversion	Recession	Months	Inversion-Recession
August 1978	January 1980	17	23%
September 1980	July 1981	10	12%
December 1988	July 1990	19	38%
February 2000	March 2001	13	(16%)
December 2005	December 2007	24	22%

Credit: <https://www.collaborativefund.com/blog/>

As of 23 February 2018
SOURCE: National Bureau of Economic Research, FRED, Bloomberg

The tendency when hearing that recessions are inextricably set off by inversions is to believe that investors are dumb and were previously picking up pennies in front of a steamroller. But facts get in the way. Double digit returns are not pennies, but this analysis is relatively new and was popularized after the Great Recession. It is now exceptionally well known. The Market tends to erode advantages created by easy forward indicators. It remains to be seen if this one has enough real world impact to withstand widespread acceptance.

Additionally, this yield curve inversion is almost certainly the result of the US-China trade war slowing global growth. Infrequently in history, and never in modern history, has the US tradeable market shrank as it has during this trade war. Not only is the US having more trouble selling into China, but by making it more difficult for Chinese products to sell in the US, Chinese consumers are buying fewer European goods. This is on top of the uncertainty created by the ongoing dispute that limits company capital investment. The resolution of the trade war is likely to result in somewhat recovered global growth and perhaps a steeper and more normalized yield curve around the world. That, at least, is White Brook's base case.

We continue to be constructive as it pertains to midcap value stocks which we believe usually outperform large cap stocks over a long term investment horizon.



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As always, feel free to reach out to discuss this or any of your investments at White Brook Capital. I thank you for your support and will strive to continue to earn your trust.

Sincerely,

A handwritten signature in black ink that reads "Basil F. Alsikafi".

Basil F. Alsikafi

Portfolio Manager

White Brook Capital, LLC

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