

Third Quarter 2020 Quarterly Commentary

NAV increase, net	PF 2019	1Q 2020	2Q2020	3Q2020
WBCP	18.14%	-35.79%	34.39%	2.23%
S&P 400	9.11%	-29.70%	24.07%	4.77%

Inception of White Brook Capital Partners was August 16, 2019

Performance figures are provided by the administrator, PF 2019 figures are audited

Performance is net of all realized and accrued fees

Portfolio Commentary

At quarter end, the Fund was 93.74% invested across 13 positions. For the third quarter 2020, the Fund's NAV increased by 2.12% vs the S&P midcap index up 4.77% underperforming by 265 basis points.

During the third quarter, top contributors to the fund were Match Group, Inc (MTCH) and IAC Corp (IAC). Top detractors from the Fund were Box Inc (BOX), and Goodyear Tire & Rubber Co (GT). On a sector basis, our investments in materials and communications were the best performers, and consumer discretionary and communications were the top detractors to Fund performance.

During the third quarter, the Fund exited Coty Inc (COTY) and initiated new positions in B. Riley Financial Services (RILY) and a post-acquisition, special purpose acquisition company Netfin Acquisition Corp (NFIN). We subsequently sold the Netfin Acquisition Corp position in October with a gain.

This quarter was largely directionless for the Portfolio and the Portfolio's underperformance vs the midcap index was idiosyncratic and frankly random. That reason is unsatisfying, but in the first 5 days of October, that underperformance has been wholly reversed similarly indiscriminately. That may change over the rest of the quarter as management teams unveil their initial expectations for their companies' 2021 company performance on third quarter calls for the market and our individual investments, but I like the Fund's positioning today.

Finally, as a way to provide additional insight to investors I now have a podcast that I co-host called The Laps and Gaps Podcast. My co-host, Jack Stockert is also an LP in the Fund, and the conversions we have are born out of conversations we had offline previous to starting

the podcast. He is a healthcare investor based in the San Francisco Bay area. We aim to provide insightful commentary on a variety of topics akin to a wedding table type conversation that you want to eavesdrop on. We are also working to bring an interesting mix of guests in the future to provide a range of views from across the business landscape all in the spirit of advancing understanding, highlighting opportunities, and informing investment theses.

Follow up - Internet Regulation

A theme of these letters is my belief that antitrust regulation is a growing risk. The House released their Antitrust Report on Big Tech in early October and just prior to this letter's release, the Department of Justice has filed suit against Alphabet/Google (GOOG). The probability of regulation has increased dramatically.

Antitrust processes are important. The trust busting era of the early 20th century remade the US energy industry by breaking up Standard Oil and US based international trade by breaking up the International Mercantile Marine Company. Later, action against AT&T remade the telecommunications, media, and technology industries. Finally, the Microsoft action in the 90s created room for today's behemoths to compete. The Congressional report released by the House of Representatives targeted not just 1, but 4 companies at the same time and created the beginnings of an evidence trail for the Department of Justice or states' attorneys general. These companies pervade all of our lives, if successful, the judgements will impact every company in the country. It's worth paying attention to.

The Department of Justice *first* suit focuses on Google's payments to manufacturers to set google.com as the default search engine. This is a common industry practice and Google discloses this payment as traffic acquisition costs or (TAC) in their earnings releases and securities filings. Apple, for instance, collects \$8-\$12 billion a year from Google to tune Safari's search to google.com by default. A potential remedy is to limit Google, in particular, from making those payments for a period of time. It's unclear who most suffers. While those payments and setting defaults clearly matters or Google wouldn't make the payments, Apple would lose \$8-\$12 billion. That said, on Windows, users both download chrome vs the similar Edge browser and change their search to google.com. But Google makes those payments to Apple for a reason. A prohibition on the payments might create room for Apple to launch their own or partner with another search engine growing a competitive installed base at least in the short term. While DuckDuckGo, Yahoo, Microsoft and the other search engines that compete in

Europe haven't been able to capitalize on the opportunity presented, there, perhaps the US market will be different.

More straightforward cases can be made against certain business practices at Apple, Amazon, and Facebook. The House report establishes the abuses, and the DOJ and Congress will either change laws, place conditions on those companies, breakup one up, or choose inaction. We can guess at what could happen based on what should happen.

1. **Shift from minimizing consumer price to emphasizing customer choice.** Competition and price were presumed to be linked and inversely correlated with monopolistic platforms excepted as long as price declined to the consumer. This approach has failed. Instead, the focus should shift back towards ensuring that there is measurable competition and allow price to be a happy coincidence.
2. **Services can be bundled, but not inextricably and exclusionarily linked.**

Bank holding companies are prohibited from tying the availability of credit to other products to corporate customers. Applying similar principles such as enforcing first class interoperability and prohibiting exclusionary practices would be appropriate and enhance other companies' ability to compete.

So-called walled gardens sustain inferior apps by creating an unequal playing field. Ensuring that different revenue streams, potential or realized, subscription or advertiser supported, have an equal opportunity to compete increases competition and allows for the invention of new business models.

3. **Market remedies will be necessary.** Hard remedies that curb behavior and set new precedent will be necessary. Criminal charges and punitive fines of multiples of tens billions of dollars, given the scale of these companies, will be necessary to enforce good behavior.

Idea in Focus: Goodyear Tire (GT)

During the third quarter of 2019 White Brook entered Goodyear Tire, the year to date worst performer in the Fund. Covid, set the company back a year, but the thesis remains in tact.

Goodyear is one of the 3 largest tire companies in the world and operates a distributed manufacturing capability globally. 50% of their revenue comes from the America's region, with

the US and Brazil as the notable markets within that group, EMEA is 30% of the business and the rest is Asia Pacific which contains the notable markets of China and India. About 80% of their revenue are replacement tires with the balance sold to new car manufacturers (OEM).

Within the OEM market, there's a distinct sales cycle, where tire manufacturers pitch and are awarded business for specific models from the OEMs. It can sometimes require custom tires to be launched to support the model. While less profitable, OEM business is important as it's guaranteed revenue and because consumers "know" the product when it comes time to replace. In the past year, that business has taken two hits. First, Covid-19 seriously impaired volumes in the 4th quarter of 2019 through the second quarter of 2020. Additionally, as manufacturers struggled, Goodyear had to cut the prices charged to OEMs - of between \$2-\$4.

Goodyear uses a size nomenclature to denote premium and non-premium tires, where less than 17 inches, is a commodity tire and above, is premium. Most of their business is non-premium, commodity tires, where they earn on average \$8 per tire in the replacement market, and \$5 at the OEM. However, a rapidly increasing percentage of tires are now above 17 inches due in large part to the popularity of SUV and light truck sales and now make up almost 50% of the replacement market. Goodyear earns \$15 on average in the OEM channel and \$28 when replacing a 17-inch tire.

In 2019, Goodyear took some short-term pain, dropping some low profitability 16-inch OEM business, in order to be able to guarantee production for more profitable 17-inch business that will come online in 2020 and 2021 and buttress revenue growth. Those cuts led to a consolidation of the manufacturing footprint that should help margins as volumes return in 2020 and 2021. Additionally, during the 4th quarter of 2019 and into 2020, the Company began to rationalize it's European distribution channel filtering out those retailers who didn't prioritize Goodyear tires. This process should end during the 4th quarter of 2020, setting up very easy comparables and much better cash flow prospects for 2021.

Electrification of autos is a tailwind for Goodyear. Tires for electric cars are different from those for combustion engines and the cost to compete in new electric tires is significantly higher than in combustion cars that have only changed incrementally for a century. Additionally, given the importance of the after-market and being able to widely manufacture and distribute, the industry is likely to change in a way that favors today's market share leaders. The competitors earning small profits on thin margins are likely to have difficulty manufacturing an

electric car tire, and the industry structure is therefore likely to change to favor those with the capability to invest. As a proof point, Goodyear currently wins over 50% of the electric car fitments that it competes for. I expect that momentum to continue and result in better gross profit margin moving forward.

Goodyear's sizable replacement business partially insulates the Company from the impact of new car sales. Recessions, however, still impact the business as tire replacement is a function of consumer confidence and miles travelled. In China, miles travelled is back near pre-covid levels, and Goodyear has taken market share during the downturn. Europe and the US continue to struggle, but auto sales have been stronger than expected during the summer, particularly for class 8 trucks, which had declined precipitously during covid, and was projected to recover at a slow rate. Additionally, trade hostilities were a headwind in 2018 and 2019. Hopefully they will not recur in 2021 as severely or 2022.

In 2017, Goodyear traded for \$35 a share, a year ago it traded at ~\$15, and it trades for \$10 today. As business improves in 2021, the company should become more profitable and cash flows should improve significantly more than revenue. The Company should be able to service its debt and I believe will be identified as a company whose prospects are rapidly improving and garner a price that reflects that. At 5.5x 2021 EBITDA, and a mid double digit 2021 FCF yield, I believe Goodyear is inexpensive. They've made necessary short-term sacrifices to ensure the long term which they should have benefited from in 2020, but Covid pushed to 2021. Their business is macroeconomically resilient, and with a \$100mm+ EBITDA tailwind based on the cessation of a raw material headwind alone, I am confident in their ability to generate substantial cash flow over the medium term. I believe owning the stock at these prices represents a solid investment opportunity.

I continue to be constructive as it pertains to midcap value stocks especially relative to large cap stocks and on an absolute basis for the medium to long term investment horizon.

Housekeeping

Due to Covid-19, for what I expect to be the next year, I will be working from my home office. I believe, although haven't confirmed, that I contracted Covid in late February from a bad elevator ride and will be waiting for a round of vaccinations to be distributed to the Chicagoland

area before returning to the building. In the meantime I'm always happy to chat by phone or video, or for those in driving distance, brave the elements outside.

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 cursive script that reads "Basil F. Alsikafi".

Basil F. Alsikafi

Portfolio Manager

White Brook Capital, LLC

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