

## Fourth Quarter 2020 Commentary

### Quarter, year in review, and a look forward

#### Performance Review

<b>NAV increase, net</b>	<b>Inception</b>	<b>2020</b>	<b>4Q2020</b>	<b>PF 2019</b>
WBCP	40.00%	19.05%	35.08%	17.60%
S&P 400	24.01%	13.66%	24.37%	9.11%

Inception of White Brook Capital Partners was August 16, 2019

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

Performance is net of all realized and accrued fees

#### Portfolio Review

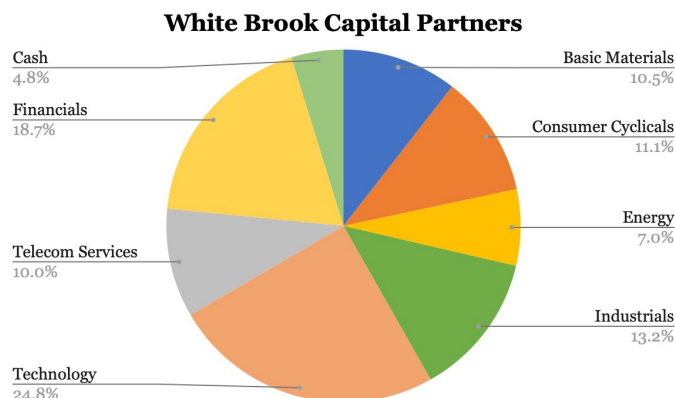
At year end, the Fund was 95.24% invested across 13 positions. For the fourth quarter 2020, the Fund's NAV increased by 35.08% vs the S&P 400 MidCap Index up 24.37%. For the year 2020, the Fund's NAV increased by 19.05% vs the S&P MidCap 400 up 13.66%. Since inception the Fund is now up 40.00% vs 24.01% for the S&P MidCap 400.

During the fourth quarter, every position except for Undisclosed Position Y increased in value. Undisclosed Position Y is undisclosed because White Brook Capital Partners is likely to continue to accumulate the position. Top contributors to the fund were First Solar, Inc (FSLR) and B Riley Financial Inc (RILY). Undisclosed Position Y was the only detractor from fourth quarter performance. On a sector basis, information technology and communications were top contributors and no sector detracted from performance.

Exiting the fourth quarter, the Fund's new positions included Alaska Air Group, Inc (ALK), Host Hotels & Resorts, Inc (HST), and Undisclosed position Y. The Fund exited Netfin Acquisition Corp (NFIN) and Match Group Inc (MTCH) during the quarter. Portfolio turnover, the amount of capital that is traded, was significantly higher than expected during the quarter and the year as the investment landscape shifted dramatically over the course of both.

For the year, top contributors to the fund were IAC/Interactivecorp (IAC) and First Solar, Inc (FSLR). Top detractors for the year were Coty, Inc (COTY) and Goodyear Tire and Rubber, Inc (GT). On a sector basis, our investments in information technology and communications were the top contributors and our investments in consumer discretionary and consumer staples were the top detractors to Fund performance.

At quarter end, the average stock in the portfolio had a market cap of \$7,256 mm with a low of \$1,179 mm and a high of \$16,159 mm on Dec 31, 2020. This compares to the S&P Midcap 400 Index's minimum market cap of \$1,168 mm, maximum of \$22,167 mm and average of \$5,404. The Fund's investments were diversified over multiple industries.



I continue to like the risk-reward, attractive overall valuation, and business quality of the individual businesses in the portfolio, but see an opportunity to enhance the risk reward given recent outsized gains. That shift has continued during the first quarter.

As I mentioned last quarter, earlier this year I enacted our business continuity plan. I continue to work from my home office and plan to continue to do so for the foreseeable future.

## Partnership Update

The Partnership continued to grow during the year. I am grateful for the founding partners of the Fund and for those that joined the partnership after the first quarter

drawdown. There's a concept of "client alpha" - abnormal returns that are earned due to the collective culture of the partners in a fund - a long-term orientation, a disregard of volatility, and a willingness to buy real estate when there's blood on the streets. It is a credit to the Partners, a good omen to the Partnership's future prospects, and an uncommon gift to White Brook Capital. Thank you.

### **SMA Update**

Again this quarter, separately managed account holders may notice a lag versus the Fund. There were two days when separately managed accounts were unable to trade at the same time as the Fund - once because the trades were initiated in the pre-market and I'm unable to trade separately managed accounts custodied at Schwab in the pre-market, the second because Schwab's trading systems failed during a high volume trading day. These headwinds were partially offset by a more favorable fee structure. It's becoming more obvious to me that the consolidation of the brokerage industry has had a negative impact on the quality of service provided by those brokerages as all of the majors endured outages during the quarter of varying duration. It informs my view of consolidation of every industry.

### **The Midcap Opportunity**

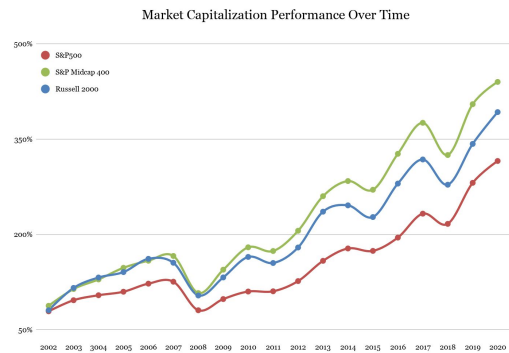
The opportunity in middle capitalization stocks continues to be significant. I continue to be a proponent of increasing exposure to midcap stocks, generally, while fully acknowledging that I am highlighting an argument in my own self interest. While White Brook Capital Partners has been able to exceed the performance of the S&P 500 since its inception, the sector has not. Middle capitalization stocks have underperformed large caps since 2014, dramatically so since 2016.



But that is not a fait accompli, with mid caps outperforming for the decade before.

**Mid Cap Stocks Outperformed for Long Term Investors Until Recently**

Entrance Year	Exit Year																			
	'02	'03	'04	'05	'06	'07	'08	'09	'10	'11	'12	'13	'14	'15	'16	'17	'18	'19	'20	
'02	Mid	Small	Small	Mid	Small	Mid	Mid	Mid	Mid	Mid	Mid	Mid	Mid	Mid	Mid	Mid	Mid	Mid	Mid	Mid
'03	Small	Small	Small	Small	Small	Small	Small	Mid	Mid	Mid	Mid	Mid	Mid	Mid	Mid	Mid	Mid	Mid	Mid	Mid
'04	Small	Small	Small	Small	Small	Small	Small	Mid	Mid	Mid	Mid	Mid	Mid	Mid	Mid	Mid	Mid	Mid	Mid	Mid
'05				Mid	Mid	Mid	Mid	Mid	Mid	Mid	Mid	Mid	Mid	Mid	Mid	Mid	Mid	Mid	Mid	Mid
'06				Small	Large	Small	Mid	Mid	Mid	Mid	Mid	Mid	Mid	Mid	Mid	Mid	Mid	Mid	Mid	Mid
'07				Mid	Mid	Mid	Mid	Mid	Mid	Mid	Mid	Mid	Mid	Mid	Mid	Mid	Mid	Mid	Mid	Mid
'08				Small	Mid	Mid	Mid	Mid	Mid	Mid	Mid	Mid	Mid	Mid	Mid	Mid	Mid	Mid	Mid	Mid
'09						Small	Mid	Mid	Mid	Mid	Mid	Mid	Mid	Mid	Mid	Mid	Mid	Mid	Mid	Mid
'10						Mid	Mid	Mid	Mid	Mid	Mid	Mid	Mid	Mid	Mid	Mid	Mid	Mid	Mid	Mid
'11						Mid	Mid	Mid	Mid	Mid	Mid	Mid	Mid	Mid	Mid	Mid	Mid	Mid	Mid	Large
'12						Large	Large	Mid	Large	Large	Mid	Large	Large	Large	Large	Large	Large	Large	Large	Large
'13						Mid	Small	Mid	Large	Mid	Mid	Large	Large	Large	Large	Large	Large	Large	Large	Large
'14						Small	Large	Large	Mid	Large	Large	Large	Large	Large	Large	Large	Large	Large	Large	Large
'15						Large	Mid	Mid	Large	Large	Large	Large	Large	Large	Large	Large	Large	Large	Large	Large
'16						Large	Mid	Mid	Large	Large	Large	Large	Large	Large	Large	Large	Large	Large	Large	Large
'17						Small	Small	Large	Large	Large	Large	Large	Large	Large	Large	Large	Large	Large	Large	Large
'18						Large	Large	Large	Large	Large	Large	Large	Large	Large	Large	Large	Large	Large	Large	Large
'19						Large	Large	Large	Large	Large	Large	Large	Large	Large	Large	Large	Large	Large	Large	Large
'20						Large	Large	Large	Large	Large	Large	Large	Large	Large	Large	Large	Large	Large	Large	Small



“Reversion to the mean” is not a serious argument. But with low US interest rates, room to further enhance margins for some companies in a hybrid work at home environment, and fiscal policies that I believe will sustain Main Street businesses, mid cap investing remains compelling.

## Outlook

For White Brook Capital's portfolio, President Biden's election was a clear positive with middle capitalization stocks outperforming large capitalization stocks as his election turned probable, inevitable, and ultimately conclusive. In terms of policy, environmentally and socially friendly companies are more likely to be beneficiaries of public policy. Additionally, incoming Treasury Secretary, Janet Yellen's comments favor policies that benefit labor and Main Street over those that benefit large corporations - a substantive break in policy from the last 10 years, and especially the last 4. Importantly, however, the country is in the middle of housing, healthcare, and unemployment crises. To handle those crises, it's likely that policy changes significantly and that it changes from what was presumed while the candidate was campaigning, impacting the status quo for multiple industries. My anticipation is that Biden will prove Obama-heavy rather than Obama-lite with larger and more significant changes than his forebear. White Brook remains on agile footing.

The S&P 500 is now expensive with valuations for many companies driven by hope. Special purpose acquisition companies (or "SPACs") are emblematic of many of the problems. SPACs are companies whose only asset is cash. Much like a venture capitalist, a SPAC looks for and acquires a target company exchanging cash for a controlling stake in the company. The holders of the target company's equity can sell to the acquirer or roll their equity into the new company. The acquiring SPAC obtains board seats, while the target company's management typically continues to run the new now well capitalized entity. The new company has an advantaged capital position to acquire other businesses in its industry or to invest in the business. But the devil is in the details, and in the current iteration, the devil is in all of the details;

1. The target and acquiring management teams are compensated just for the deal closing. The pay out is often in the tens of millions of dollars with no one's retirement dependent on the new company actually succeeding. They're set the day the deal closes.
2. Lax regulation of the SPAC process has resulted in disclosed financial projections that are entirely dependent on target management's judgements. They do not have to adhere to a likely reality and often are not. Unlike most acquirers, it is not to the benefit of management of the SPAC to scrutinize those projections. See 1.

3. I've caught more than one SPAC management team or target being at best forgetful about the extent of their previous success and regulatory filings not quite matching reality.
4. SPACs frequently have little revenue but large backlogs to excite investors. In a public company those backlogs are scrutinized and the cadence of realizing revenue from the backlogs is critiqued. SPAC operating company backlogs are often questionable with more than one SPAC now a target of short seller allegations about bankrupt entities having significant orders. Ethical, well-controlled companies would discount questionable orders at the outset and sometimes, but rarely have the extent of the problems alleged.
5. Venture Capital investors are frequently the sellers. That means that sophisticated investors who know the most pertinent information and can choose accounting paradigms that favor their company are picking what to disclose and what price to sell. Retail investors, who often buy these deals, infrequently have the information they need and are at their mercy.
6. Usually, the SEC's ire is enough to scare participants into behaving, but the SEC is more lightly regulating SPACs than it does IPOs - despite very similar information inequities.

The incentives make SPAC investing different from private equity or venture capital investing where "bad deals" result in ruined reputations and shortened careers. That is plainly not the case now with SPACs. In many ways it's emblematic of the market overall today. With less regulation and Covid suppressing near term economic activity, investors are paying ever higher amounts for further into the future business performance. It will work out for some, but many will be disappointed. In my view, the current iteration of SPAC management teams should be tarred and feathered and regarded in the same vein that we regard those that ran Enron, MCI, and others that knowingly perpetuated frauds on the investing public.

As I outlined four years ago, Trump's presidency represented an additional risk to markets and the removal of that risk is a positive. In addition to nonsensical domestic public policy, dangerous foreign policy, emphases on patronage over competence, and general malevolence, the President enjoyed using his Twitter account to hurt US based companies' stocks over his four years. White Brook was impacted during the fourth quarter when President Trump disparaged Goodyear Tire for barring political expression from the workplace. With

leaders like those who needs competition? Regardless, I'm looking forward to not having to habitually check Twitter to understand our investments' behavior.

## Tech Expectations

To profit from whatever comes next, I'm focused on a number of other developments that I think will change the paradigm of specific industries. In particular, I think that tech will rapidly move to a mature, more competitive phase.

- 1. Apple - WinTel - Salesforce:** The combination of Apple's new M1 Processor and the pricing and performance advantage that it creates will drive PC market share towards Apple. WinTel and Microsoft Office's grasp on enterprise will loosen by a step function. Additionally, CRM/ERP provider, Salesforce, bought workplace collaboration enabler, Slack, with the expressed desire to compete against Microsoft's productivity platform. Apple also could make a move into the enterprise market - currently nowhere, but with personal computing hardware all but settled business at this point. Enterprise software is likely to get more lively.
- 2. Disparity:** Covid has and will continue to accentuate the disparity between haves and have nots. While music, television, prestige and niche news have all succumbed to the temptation of subscriptions, changes by Apple, effectively limiting advertisers from understanding potential customers not signed into Google, are likely to push other ad-supported services to a subscription model. For small businesses and those that rely on giving up their personal information for free services, it creates further difficulty. While users cherish Apple's software for protecting their privacy, the company will be a source of greater inequity.
- 3. Friendly fire:** The operating environment for 20% of the S&P 500 has become far more interesting in the last quarter or two as Apple, Facebook, Microsoft, Google, and Amazon begin to directly compete with each other. In addition to the enterprise computing space, Apple will take on Google in search (by pseudo regulatory decree if not business priority), and partially demonetize Facebook via its control of iOS to limit user tracking. At the same time smaller companies are beginning to achieve necessary market presence as exemplified by Shopify having achieved sufficient scale to enable retailers to compete with Amazon's

marketplace and Epic Games use of the courts to try to lower the commission paid to Apple and Google for use of their app stores. This is in addition to the antitrust proceedings commenced by regulatory agencies worldwide. It's worth noting that the mega-cap tech stocks were forces because they were great at what they did and operated in large white spaces with little formidable competition for a decade. At a trillion dollars a piece, they're starting to run into each other.

4. **Covid:** The primary function of government over the next 1 to 2 years will be the Covid recovery. There's a range of potential outcomes from vaccinations going well, the death rate plummeting, and trickle down economics working as the relatively better off get out of their homes and lift parts of the economy at a high rate. In addition, however, it's likely that companies will cut their sales people, travel and entertainment budgets will at least temporarily be cut, and unemployment is with us as an enduring problem. To generate revenue in a dichotomized society, not only do taxes normalize at a higher level but the government begins charging more for more services.

I think this is a likely outcome and a worse one than is priced by the stocks of many companies. There are a handful of companies, still cheap, that stand to benefit however and it's my intent for White Brook Capital to take advantage of those changes should they come.

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,



Basil F. Alsikafi

Portfolio Manager

White Brook Capital, LLC

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