

Year End 2021 Commentary

Year in review, and a look forward

Performance Review

NAV increase, net	Inception	PF 2019	2020	2021
WBCP	92.03%	17.60%	19.05%	37.16%
S&P 400	54.72%	9.11%	13.66%	24.76%
S&P 500	69.31%	11.10%	18.40%	28.71%

Inception of White Brook Capital Partners was August 16, 2019

Performance figures are provided by the administrator and are unaudited, PF 2019, 2020 figures are audited; 2021 are unaudited

Performance is net of all realized and accrued fees

Portfolio Review

At quarter end, the Fund was 89.75% invested across 10 positions. For the year, the Fund's NAV increased by 37.16% vs the S&P 400 MidCap Index up 24.76% and the S&P 500 Index up 28.71%, net of all realized and accrued fees. This marks the third consecutive year of outperformance. None of the outperformance is attributable to higher risk investments in crypto currencies or the so called "meme" stocks like Gamestop (GME) or AMC Entertainment (AMC).

This year, the Fund and larger taxable accounts that are run pari-passu to White Brook Capital Partners took advantage of tax losses in the fourth quarter to increase their after-tax returns. Therefore the portfolio at the end of the year may not represent the portfolio at the end of January. The Fund entered a new position in KAR Auction Services (KAR) during the fourth quarter and while some accounts did exit one position, it is likely to be re-initiated in the short term.

For the year, the portfolio's top gainers were B. Riley Financial (RILY) and Mosaic Co (MOS). The portfolio's top detractors were Qurate Retail Inc (QRTEA) and Pitney Bowes Inc (PBI). On a sector basis, no sector's detracted from the Fund's performance, while Financials and Communications were the top contributors to performance.

Performance this year was solid. In the first half, the portfolio outperformed due to specific stock selection, but also with a backdrop that supported small and mid-cap value stocks vs large cap and growth stocks. During the second half, large cap and growth stocks - factors that have dominated for almost half a decade now - more than made up the first half midcap and

value outperformance, while the portfolio's performance also suffered from negative stock specific news. All in, on both an absolute and relative basis, to either indices, the Fund's performance was favorable and the portfolio continues to be well positioned.

During the year our investment posture changed, removing an explicit "reopening" trade focused on a reemergent consumer. While consumer spending and consumer balance sheets are strong, the outcomes implied by the price of those investments compared to their sensitivity around incrementally negative covid outcomes was unsatisfactory. This decision proved out as the Omicron variant slowed the rebound of travel and related industries globally. Going forward, I don't assume the Omicron variant is the cure-all some believe. I continue to believe Covid will be endemic - as I wrote at the crisis onset. This year, I think that public policy changes from protecting a vulnerable hospital system to one that helps end the economic shortages driven by shutdowns. A portion of the investment book should benefit if goods currently in shortage revert to something that approximates normal availability in the near to medium term.

White Brook has developed a framework that defines our investments' emerging competitive strategic advantage (BENCH). Compared to their competitors, each is either the Best, Easiest, Necessary, or Cheapest **and** is also becoming another of those qualities. Heart, refers to management's drive, with either personality, or more reliably, an incentive structure in place that encourages the management team to act in shareholder interest. This framework is derivative of how candymakers once determined the success of a prospective new product. Not only did the product have to taste good, but it had to require at least 2 hard to reproduce manufacturing techniques. Each hard to reproduce technique protected the secrets of the other and the product could build a following before others could replicate. "Heart" helps answer one of the most important questions in investing - "Why will it perform now?"

Our recipe

All investments' products/services must have at least one of the qualities AND be actively and strongly developing the second

Best - best in class at what they do

Easiest - easiest for their customer to use or to get to

Necessary - necessary for their customers to do their job

Cheapest - inexpensive over the total cost of ownership

Heat - driven or properly incentivized to work for their stakeholders (required)

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MidCap Opportunity

As an update to a longstanding and self-serving thesis that midcap stocks have underperformed and are set to outperform - the opportunity in middle capitalization stocks continues to be significant and I continue to be a proponent of increasing exposure. As you can see in the first graph, midcaps have dramatically underperformed large caps since 2016. Changes to the large scale assumptions that underpin the macroeconomic environment,

particularly around government intervention, tend to have a bigger impact on smaller companies. This year, the Delta variant, mid-year, and the prospect of a much more hawkish Federal Reserve at the end of the year, proved detrimental to non large-caps and large cap stocks once again outperformed. The extent of this outperformance/underperformance is unusual.

The second graph plots the performance of so called “value” and “growth” factors vs the S&P 500. It illustrates the outperformance of growth over value since 2017 and the extremity of its current outperformance defying the long term correlation. This too is unusual.

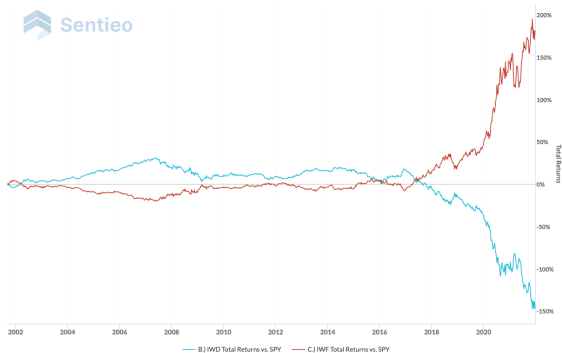
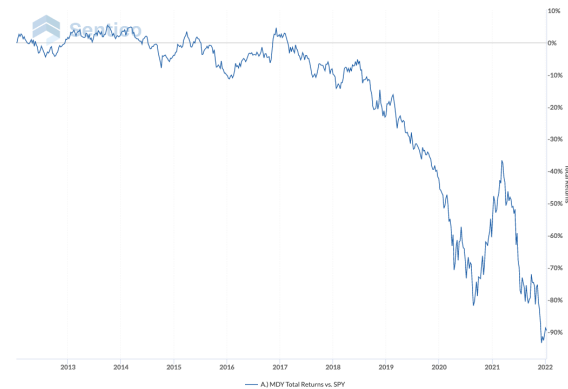
White Brook Capital Partners has been able to outperform the S&P 500 despite being composed predominantly of mid-cap value stocks. I continue to believe that midcap stocks present a compelling opportunity, especially relative to large cap stocks, and that exposure to the asset class will finally provide an enduring tailwind for the Fund when it reverses.

Outlook

The Fund’s outperformance these past three years is the result of confidence in particular changes that I believed would occur, rather than a prognostication of the likely performance of the market. My current observations, pertinent to our investment view over the next year or two are:

1. Inflation is a Covid problem

My assumption is that our current high level of inflation is a Covid related supply and distribution problem rather than a long-term structural economic problem. Whether medium term inflation is ultimately 2% or 3.5%, is inconsequential to our view, but I do expect that on a go-forward basis, wage growth will be more limited as workers rejoin the workforce. Double ordering, a feature of shortages that exacerbates the problem, will subside as orders fill and I expect prices in certain verticals, now showing eye-popping



inflation, will subside. Domestically, there is evidence we're in the first innings of this occurring with a few automotive and automotive technology suppliers reporting they now have enough semi-conductors to make their products. Separately, but importantly long haul transportation prices on some important routes have declined in recent weeks.

Globally, more people are able to get back to work as vaccination rates climb among workers in export heavy countries as they're either vaccinated or earn their immunity through infection. The notable outlier is China, which has sought a Covid zero policy and represents a continued risk of wholesale disruption of the supply chain for weeks at a time. Despite Covid, structurally deflationary forces of growing information commoditization, data analysis, and automation have continued to spread to more companies and will continue. The key out of the inflation part of the covid crises, as noted last quarter, is people working.

2. Rebundling

The past two years have seen a number of businesses started, able to use software as a service to launch on a fraction of the budget they would have been able to 5 years ago. The environment, with extremely low interest rates, cheap, capable tools to run and develop an online presence, and cheap distribution has been a boon for those entrepreneurs who have successfully started. Each of those factors has begun to change. Interest rates are somewhat higher, (although still very low); the cost of online advertising has risen dramatically - making it more difficult for new businesses to develop a following, and shipping has become more expensive. While it was obvious a couple years ago that a direct to consumer, online only business was a smart way to launch, that answer is far less clear today.

In many ways, the issue today reflects that of the media industry a decade ago. As it turns out, while it's relatively easy to broadcast video, make a show, start a website, play a guitar, or start an ecommerce store, abundance becomes its own impediment and people end up watching the same shows, listening to the same music, visiting the same websites, and ordering from the same stores. "Content is king" until everyone has content, then having distribution to a customer matters more. With money becoming more expensive and companies needing to invest in supply chains to be able to provide goods and services at a high expected service level everywhere, it will be hard for many companies to make that supply chain investment and compete. This should create

opportunities for mid-size companies to marry some of their smaller competitors who have found niches, provide that necessary last mile or critical storefront, and re-aggregate some of the industries that have started to fragment.

3. Antitrust is coming for the leaders across sectors

A theme of these letters has been a belief that governments would restrain Apple, Amazon, Google, and Meta's ability to compete in new fields. That view was too limited. In the fourth quarter:

1. The FTC/DOJ either challenged or killed the mergers of Sportsman Warehouse and Bass Pro Shops, NVidia and AMD, and United Healthcare and Change Healthcare. Sporting goods, integrated circuit design, and healthcare - not only megatech.
2. Senator Warren argued that grocery store consolidation had led to price inflation at the grocery store.
3. The Biden administration argued that consolidated industries were in part responsible for inflation.

The politicians don't have to be right but populist and progressive audiences alike are increasingly turning on "Big Business" - this is not an environment we've had in my lifetime.

Finally, we've had two and a half years of what I believe is very solid performance. Assuming we're able to continue to perform this year, White Brook will be looking to bring on a business development partner late this year or early next. This person will get to tell me where to go, whom to talk to, and advise on how the Firm needs to spend its money – in many ways he or she will be my boss. If you know someone who might be a good fit, please let me know. My wife and I dated for 5 years before we married, I'd like this partnership to be equally well considered, if on a much shorter timeline.

As always, feel free to reach out to discuss this letter or any of your investments at White Brook Capital. I thank you for your support and will strive to continue to earn your trust. If you know others who might be a fit for White Brook Capital's strategy, please let me know.

Sincerely,



Basil F. Alsikafi
Portfolio Manager
White Brook Capital, LLC

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