

Third Quarter 2024 Commentary

Year to date

Performance Review

As of September 30st, 2024

NAV increase, net	PF 2019	2020	2021	2022	2023	YTD24
WBCP	17.60%	19.05%	37.16%	(15.38%)	8.38%	6.50%
S&P 400	5.72%	13.66%	24.76%	(13.06%)	16.45%	13.55%

Inception of White Brook Capital Partners was August 16, 2019

Performance figures are provided by the administrator. Prior years are audited. 2024 is unaudited

Performance is net of all realized and accrued fees

At quarter end, the Fund was fully invested across 12 positions. Year to date, the Fund's NAV increased by 6.50%, net of all realized and accrued fees vs the S&P 400 MidCap Index up 13.55%.

During the quarter, White Brook Capital sold its position in PetIQ near the takeout price and reinvested proceeds in three new investments: Wayfair, Inc (W), Okta, Inc (OKTA), and Krispy Kreme, Inc (DNUT).

Wayfair adds to White Brook's thesis in a housing recovery backed by a still healthy US consumer. There is a perceived risk in the event of a Trump election that Wayfair's business model is endangered should Trump erect very high tariffs. White Brook believes that risk is overblown, that the business will thrive regardless of the extent of tariffs, and that the company is well positioned to generate significant free cash flow in the near and long term. Okta represents a new technology sector investment that is somewhat dependent on small and medium business employment and new business lines that while nascent are growing quickly. The market is unwilling to wait for those businesses to become meaningful contributors. A more detailed write up on Krispy Kreme will be published shortly via White Brook Capital Insights. In short, Krispy Kreme is underearning today and is expanding its distribution dramatically. Walmart, Target, your chain grocery store, and most importantly McDonald's are, or will be carrying Krispy Kreme in the near term and those doors add capital efficient, profitable growth. We're in the early innings of a renewal and expansion of a 100 year old retail premium donut company as an outsourced donut service and fresh consumer packaged goods company.

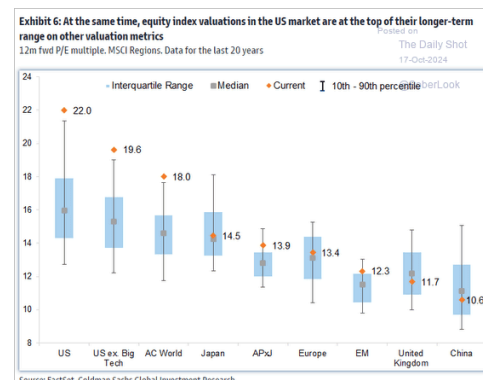
The best performers through the third quarter were positions in Life Time Group Holdings, Inc (LTH) and PetIQ, Inc (PETQ). The worst performers were Green Plains (GPRE) and Mosaic (MOS)

Market Review

Economically, it has been a good time to be invested in US based companies. Interest rates have moderated somewhat from their highs although the ultimate lower bound and the grade of descent remain uncertain. Married with healthy employment, lower rates are a positive for durable goods purchases whose production and sale employ more people, and the economy should benefit from those increased car, home, and home furnishing sales. At the same time, credit card delinquencies are higher but still on the range of historical averages and company bankruptcies are occurring at a rate similar to their long term average.

In the near term, the twin hurricanes of Helene and Milton have been somewhat disruptive to the underlying US economy. IV fluids will be in shortage through the remainder of the year and early next year, nationally - significantly impacting hospital operations outside of the ICU, increasing costs for the country's health insurers and deferring elective surgeries until next year. The rebuild in the southeast, will result in significant economic activity to salvage and replace a host of durable goods including homes and cars. With the US consumer still strong, we continue to believe that a "soft landing" scenario is closer to the worst case than the base case.

That said the S&P 500 index and the Magnificent 7 that dominate the index, remain expensive. Their investments in artificial intelligence have displayed a remarkable lack of concern for underlying returns on their investment, while the companies compete more directly with one another in both hardware and software, and now are the target of antitrust regulation. Midcap and small capitalization stocks, on the other hand continue to be cheap, are beneficiaries of the easier operating environment, and due to their relative cheapness, are good targets for acquisitive activity. Large cap companies looking for growth and private equity firms are better positioned to buy than they have been over the past year, with relatively lower debt costs. Moving forward, I expect significantly more M&A transaction activity, and hope to be the continued beneficiary,



as we were with PetIQ during the third quarter.

Portfolio Review

The portfolio saw a boost during the quarter from a private equity bid to buy PetIQ (PETQ) in the quarter. [I wrote about the bid as well as other potential take out candidates in the portfolio at the time of the bid.](#) That note continues to be true.

AFYA, Inc (AFYA) and Green Plains were laggards during the quarter. As highlighted in the note, the Bertelessman family continues to consistently buy more stock in Afya and their ownership percentage of the company continues to grow even as the company continues to execute. While the US markets do not have a mandatory bid takeover provision when specific ownership levels are reached as some European markets do, at one point controlling the free cash flow becomes more important than the relatively small (in absolute terms) premium that will need to be spent on outstanding shares held by minority investors (us). At these depressed prices, we intend to hold and demand a premium.

Green Plains management and board continue to find themselves under activist scrutiny with long-term shareholders consolidating around a sale of the company. A small but underappreciated debt instrument that prohibited the company's sale was paid down on October 1st and so the review process and consideration by potential acquirers that should have begun during the 1st quarter, can now lead to actionable behavior. As it stands, management and the board are staring at an embarrassing proxy contest they will overwhelmingly lose in early 2025 if they don't sell the Company in the fourth quarter or early in the first. As collaborating evidence, an industry comparable transaction occurred during the third quarter that supports shareholder contention that a significantly higher stock price can be achieved through the company's sale, in whole or in parts. We expect movement in the short term.

Builders First Source (BLDR) , which we wrote about as a year to date laggard last quarter, recovered significantly during the third quarter as achievable mortgage rates moderated. [The White Brook Insights piece published on housing the week of July 1st, is a good overview of the industry thesis on Builders First Source.](#) US single family housing permits have begun to increase again and the devastation caused by this year's hurricane season is a clear boon for Builders First Source and other home building supply companies who will support rebuilding activity in the short term. Over the medium term lower mortgage rates and a recent shallow trend higher in single family home building permits will support

the companies. I believe the stock will perform well from here over the relatively short term, but also over the next 3 years as a now more well publicized housing supply deficit requires more new homes to be built and it appears both presidential candidates support some kind of aid to accelerate that activity.

The 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 are cheap and have dramatically underperformed large caps since 2016. Recent improvements in the relative performance of midcaps may be a harbinger of more.

The second graph plots the relative valuations of the indices since 2016. It illustrates the outperformance of large cap stocks driven by the technology sector. The extremity of its current outperformance defies the long term relationship where smaller cap stocks traded at a healthier multiple to large cap stocks in part due to their faster growth and ability to be acquired.

I continue to believe that small and midcap stocks present a compelling opportunity, especially relative to large cap stocks, and that exposure to the asset class provides an enduring tailwind for the Fund as it reverses.

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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