

# Second Quarter 2025 Commentary

## A look forward

### Market Commentary

Year to date the S&P 500 is up 5.50% overcoming concerns about the reciprocal tariff regime proposed by President Trump at the beginning of the second quarter. Current economic indicators indicate slow economic activity with surprising employment strength and slower than expected inflation offset by somewhat lower goods order activity and below trendline construction activity. For the stock market, the United States government is again transferring future generations' opportunity to today's wealthy individuals and corporations. It's unclear how many trillions of dollars of debt, and what debt/GDP ratio results in permanently higher interest rates and a mortgaging of our children's future but during this period of wealth transfer it makes sense to own US corporations that benefit.

There are signs of mania in today's market. Special purpose acquisition companies, or SPACs, are again coming to market. As a reminder, in 2021 SPACs led to tremendous short term returns for SPAC sponsors and short term investors, but the typical SPAC over the long term, fell over 90%. Similarly, bitcoin treasury companies, public companies whose primary function is to own bitcoin, are both becoming more numerous and generally trade at a premium to the value of their bitcoin. Those leadership teams, led by MicroStrategy Inc' success, found the unlikely Infinite Money Machine where companies issue shares to buy bitcoin and repeat, without a mainline business, as their shares trade for more than the purchased bitcoin. It's great for the leadership of those companies, and while the mania progresses, good for the companies' shareholders. When it ends, shareholders will lose, but the absolute dollars destroyed will hopefully be relatively small. It's more important as a sign that this market seems willing to push trends to an extreme.

It's surprising that the President browbeating CEOs has helped delay the implementation of price increases and therefore the actual mechanism of inflation from tariffs. Recent earnings calls indicate that that respite will soon end. It's unclear whether these anecdotal points will find their way into the macro data, but if it does, it could lead to a change in the administration's behavior, the expected path of short term interest rates, and the general economic mood.

## **Organizational Update**

As previewed in the first quarter commentary, White Brook significantly adjusted its operations during the second quarter.

From inception White Brook has run a portfolio of middle capitalization stocks. The thesis in 2017 was that midcaps had underperformed for so long that they were set to outperform. Instead, despite a few headfakes, they kept underperforming. The dominance of the Magnificent 7 explains a lot, but even within an industry like financial services, with no Mag 7 participants, which has companies in a range of market capitalizations competing by providing largely identical products, large caps outperformed while midcaps underperformed. For White Brook, while strong stock selection resulted in outperformance in the early years despite the midcap headwind, it was a persistent drag, and the past three years we underperformed.

Ultimately no one was more disappointed than me in the midcap strategy's underperformance. My self-respect is heavily influenced by my work, and the burden from the missed earnings, the let down clients, the dead brain cells, and the reputational harm that comes from underperforming, I continue to carry. I can control the work White Brook does moving forward however, and am determined to provide value to clients. I have cut the cement of a midcap only strategy from my boots.

White Brook Capital now offers three strategies. An S&P 500 Ethical Index strategy, a Small and Micro-Cap strategy, and an All-Cap strategy. From White Brook Capital's perspective I'm gratified that assets under management and the number of clients has actually increased since we shut down the midcap commingled fund, and I believe our best days are in front of us. With the new focus, I believe that we're now moving in the right direction.

## **Ethical Criteria**

Moving forward, each of the strategies meets an ethical criteria which has a different emphasis than the SRI/ESG criteria previously used. While we didn't invest in aerospace and defense companies before, there are a number of companies that do significant aerospace and defense work, are mission critical to those companies and their end users goals, but are characterized as something else. In addition to vice, companies that pursue defense contracts in size or customize their services to attract that business, are not part White Brook's investable universe. This includes business process outsourcing companies with significant defense business, electronic design automation companies that have purposefully increased their defense concentration, tool companies that make special parts for defense companies, etc. In the 504 companies that are part of the S&P 500, 283 companies are part of the ethical index. For

excluded businesses, in many cases there are alternatives who either do not serve defense companies or sell the equivalent of a pencil that finds its way into the defense industry without being specifically customized for that use. Businesses have, and we can, pursue profits without the bloodlust.

It's important to recognize, however, that the defense sector is likely to be a very good sector to have exposure to for the next several years. Europe, the United States, and Israel have used and experimented with new armaments and surveillance tools in Gaza, the West Bank, and Iran, while Europe and the US have experimented in Ukraine. At a time that the US is increasing its own defense budget and has successfully cajoled NATO member countries to do the same, new armament and defense technology will be a source of profits over the next three years. White Brook Capital clients will "miss out" on those profits, but we are more intensely pacifist today.

## **Portfolio Review**

### ***The Ethical S&P 500 Strategy***

The Ethical S&P 500 Strategy officially started on April 16th. It was up 13.9% through June 30th vs 15.5% for the S&P 500. As mentioned earlier, the strategy notably does not include defense companies or companies who customize their goods and services for defense and vice companies. Defense companies were significant outperformers during the period, up over 23%, buoyed by the wars in Ukraine, Gaza, and Iran and the directive for NATO countries to spend 5% of their budgets on defense.

The Index is extremely diversified and is composed of the same companies as the S&P 500 and with similar concentrations - excepting the exclusions. It is meant as an S&P 500 index replacement for those that want passive exposure to the US's largest companies. I have been happy with the performance of the strategy so far and gratified by the interest it has received.

Its fact sheet, along with the others, is available on our website at <https://www.whitebrookcapital.com/strategies>.

### ***Small Cap Absolute Growth Strategy***

The Small Cap Absolute Growth Strategy has been a standout performer since its inception at the beginning of the year, up 191.63% year to date, gross of fees. Rapid Micro Biosystems, Inc (RPID) continues to be a large position and was up over 30% in the quarter. Its success was surpassed by Paysign (PAYS) which was up over 200% in the quarter and 125% for the year. In the model portfolio 6 of the 9 positions in the portfolio have positive performance.

Of the remaining three, Infusystems Holdings, Inc (INFU) and JAKKs Pacific, Inc (JAKK) are off immaterially from our purchase price while the last is still being accumulated across participating accounts. The expectation is that the number of the positions in the portfolio should continue to grow over the next two quarters, but the early success is significant and the strategy will be an ongoing offering of White Brook Capital as long as the opportunity is apparent. White Brook will not reach to stay invested and will either hold cash in this strategy when opportunities are not apparent or will return capital to clients. Today, we see a lot of opportunities in small and micro caps.

While the Small Cap Absolute Growth Strategy is open for investment, it is only suitable for qualified investors. Recently, we published an insight on one of its holdings, available at <https://whitebrook.substack.com/>.

### ***The All-Cap Strategy***

The All Cap strategy has only been fully invested since early May. It now holds 27 instruments ranging in market cap from a few microcap companies to Alphabet, Amazon, and Nvidia. Like the Small Cap Absolute Growth Strategy and unlike the previously pursued midcap strategy, it does not purport to be fully invested at all times, but instead seeks to outperform over the market cycle and is far less concentrated than the mid cap strategy was. The higher level of diversification, and a higher percentage of large cap companies should result in less underperformance versus the S&P 500 during periods of market volatility. Early performance was harmed by becoming defensive and holding cash through the early tumult of tariff news, even while markets appreciated, as the strategy prioritized avoidance of loss over potential gains.

Despite having approximately 30 individual positions, the All Cap Strategy still has a point of view.

1. It is overweight housing construction. The resumption of home building activity is an enduring trend whose recovery paused as the average 30 year mortgage rate exceeded 6.75%. As interest rates stabilize or decline, the expectation should be that the at least 1 million habitable home deficit in the US will be alleviated by building new single family or multi family units. We believe we are at a relative low point today and the likelihood is for an improvement not a continued deterioration in the market.
2. We continue to wonder at the economic model for those that create the models for artificial intelligence but recognize that the so called arms dealers - the

companies that provide the infrastructure, are valuation agnostic in the short and medium term. AI development is being regarded by large cap tech as a “race” and they are spending aggressively to compete. Evidence is apparent in Nvidia’s processor spend as well as the hundreds of millions of dollars Meta is spending on talent in recent weeks to improve their model development. In the All-Cap portfolio, we own several of the infrastructure companies today, including Nvidia and those that implement AI into their tools, but continue to be cautious on companies spending aggressively to build the model itself.

3. Otherwise, the portfolio is composed of solid companies and market leaders that are executing well and are undervalued.

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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