

Third Quarter 2026 Commentary

Performance Summary

- We are pleased with outperformance in our Ethical All-Cap strategy and remain cautious and selective buyers.
- The Ethical Index is performing as designed. Its difference in performance from the popular index this year reflects the outperformance of companies critical to munitions production that our index excludes.
- Our Ethical Small Cap strategy has underperformed this year. We believe each holding is creating value that should be revealed in the short to medium term.

Please review the factsheets available at www.whitebrookcapital.com or your quarterly statements for financial return information.

Macro Commentary

The Federal Reserve's resumption of increases in the Federal Funds rate was the quarter's most significant development, and perhaps the year's. Its posture has changed significantly under Kevin Warsh. Market participants now are charting policy, with the Federal Reserve responding to their cues. This is a marked departure in not only policy but actual market functioning from a greater part of the past two decades. Outsized deficit spending on war has few multiplier effects for the economy and is a significant risk, now, not only for our children and grandchildren, but us as well.

The 10-year Treasury yield has risen by almost a full percentage point, and a typical 30-year mortgage carries a 7.4% rate at the time of this writing. The policy operates on a lag through the economy as both real estate investment and capital equipment become less affordable at pre-increase prices and buyers and sellers take time to digest interest rate volatility. With the AI build, our national debt, and our corporate debt market all based on spreads to the risk free rate, caution here is warranted.

Beyond interest rates, the US economy has remained resilient despite poor consumer confidence, doubts about demand for AI models and infrastructure, and irresponsible fiscal spending. Companies reporting at the end of last quarter and early this quarter, echoed a pattern we've noted before: AI infrastructure investment continues and supports multiple parts of the

economy and higher-income consumers continue to spend, particularly on experiences. Lower-income consumers, however, are now visibly trading down.

As feared, domestic immigration enforcement has put further pressure on employers seeking electricians and construction workers, who are critical to both the AI buildout and homebuilding, increasing the costs to would-be homeowners as the AI buildout wins talent. America's trade war with Canada has increased lumber costs, while the war on Iran has raised energy prices, making construction and farm work more expensive, also increasing the cost to build homes and likely increasing food prices in the months to come.

These headwinds are substantial and almost wholly self-inflicted. More rational economic decisions like ending wars both foreign (Iran) and domestic (immigrants), would lower costs, support increased economic activity, and lift stock prices. US economic growth depends on four interrelated factors: energy costs, capital costs, the availability of capital, and the size and quality of the workforce. AI investment continues to supply capital, but the other three factors have deteriorated. An end to recent warmongering would be a significant positive.

Positively, in healthcare, life science tools companies report that preclinical research budgets have bottomed after two years of pressure. AI use in drug development is adding demand as companies run large-scale lab experiments to generate training data for biological models. Pharmaceutical companies have also spent much of the past year adapting their commercial plans to the new Most Favored Nation pricing and tariff regime. An end to that pressure would benefit our small-cap strategy once it appears in reported results.

Industrial and transportation companies also report an upturn. J.B. Hunt reported its first quarter of double-digit intermodal volume growth in over a decade and now needs to raise driver pay and offer sign-on bonuses to attract drivers. Railroads, which compete with trucking on cost, are also seeing more volume as higher energy prices push shippers toward cheaper transport even while United Rentals, a bellwether of industrial demand, says construction demand has exceeded its expectations this year, driven by large projects such as data centers. These developments point to the economic impact of data center investment and perhaps some reshoring activity as well.

Overall, the economy is growing despite the fiscal authorities' best efforts. Increased interest rates however have the potential to be a significant brake on growth and new data should be viewed critically. There are reasons to think that inflation, while growing quickly today and probably tomorrow, could wither within a few quarters as energy and increased

capital costs take time to work through the economy. AI infrastructure investment appears locked in for 2027, and fairly certain for 2028 at this point, while the outlook for 2029 is still shaping up.

At 19 times earnings, the index does not look expensive in isolation, but it does relative to the 10-year Treasury yield. AI-related companies trade above the market average. Non-AI companies trade at relatively low valuations compared with both the market and their own history.

Artificial Intelligence

White Brook's AI thesis today is "*yet*." While it's unfair to say that artificial intelligence has had no impact, it is fair to say that it hasn't had a revolutionary impact, *yet*. For instance:

1. AI hasn't really affected employment, yet. Both in terms of obviously sought after skills and hiring trends, workers outside of software engineering are expected to be good at what they were good at before, not also obviously extensible by competent use of AI tools.
2. It hasn't affected education, yet. Our school systems and universities acknowledge its existence, but aren't sure how to teach the basics of their disciplines and AI application without having students abuse the latter and forget to learn the former.
3. It hasn't changed the cost curve, yet. While companies report adopting AI, and those who adopted longer ago have begun to shift spend to non-frontier models, company margins or offered products haven't yet widely expanded due to AI use.
4. It hasn't reached the limits of its current approach, yet. AI technology is still Large Language Model based. Some experts believe that that is fundamentally limited and other approaches will yield more capable technology. Additional advancements along the current line of inquiry require significant investment and new approaches do appear to be necessary.
5. American AI models haven't been seriously challenged by open weight or Chinese competitors, yet. Deepseek, Qwen, and other Chinese competition is present, it's cheap, but it hasn't yet captured too many workloads. Meta's model was released during the editing process of this letter. There are microtrends that are gaining strength.
6. Chinese semiconductor companies haven't challenged Western companies, yet. By limiting technology exports, the US has created a competitor that history tells us will be

cheaper for the rest of the world to adopt. But, the technology in most applications isn't quite there yet, from lithography to memory, even as it quickly progresses.

It is difficult to predict who will drive these changes, how they will happen, or when. Things usually take a long time to change, then happen all at once.

White Brook's stance is that at most prices, we wouldn't own a pure play frontier model provider. As we've written before, they are challenging businesses. Development spending is extremely high, both to improve capability to stay ahead of a myriad of competitors and to lower customers' operating costs to improve the tasks it can be used for. Sales and marketing spending is also high as providers provide significant incentives to retain users when their models fall behind and to induce switching behavior. Switching costs for the customer are extremely low and competition for large enterprise contracts as even the non-frontier models can do more, is intense. Four prominent US frontier providers with deep pockets, open-weight developers who can provide a superior cost for newly economic on-prem computing, and Chinese competitors are all producing capable models at almost no cost for their customers to switch. We think providers will struggle to earn excess profits even as they continue to spend on the ability to deliver their models to customers and will soon turn to advertising to generate excess cash flow. We think companies with that muscle are the superior bet.

Ethical All-Cap Strategy

The Ethical All-Cap Strategy has outperformed so far this year, even as we've taken a perhaps overly cautious approach to AI. We have less exposure to AI than the index, but we've tried to correct our early pessimism, by doing so smartly, if not particularly heroically. In computing, we own Nvidia, Taiwan Semiconductor Manufacturing Company, and SK Hynix as leading compute enablers that enable baseload training and inference. We acknowledge the memory capital cycle and its vulnerability to oversupply, but believe that at a little over 3x projected cash flow, with two years of revenue virtually locked in, and memory getting more difficult to manufacture, it's a favorable risk/reward. We also own Chinese semiconductor companies that we believe are undervalued relative to their likely global adoption, given American nativism and foreign policy. Finally, we own Qnity - also a beneficiary of continued spending on semiconductor manufacturing, regardless of geography or model.

We also own a couple of software companies whose products we think will become surfaces to use AI, rather than be displaced by it, and that were acquired at fair prices. We have covered them before in these letters. Additionally, Alphabet and Meta were opportunistic

purchases created by their apparent AI model capability lag, but that we believe are better able to both use and develop AI given their advertising muscle, more than that that muscle is vulnerable to AIs development. If they can stay close to the frontier, we think they will earn excess profits from AI adoption better than the pure play labs.

Media Thesis

We have also begun investing around a media sector thesis. Apart from an opportunistic and profitable investment in Discovery a couple of years ago, the last time I saw a compelling sector-wide opportunity was when I started on the buy side more than twenty years ago as a buy-side media associate. The prevailing thesis then was “Content is King.” We preferred distribution, partly by choice and partly by luck - 7 months into that job I became the firm’s cable and telecom analyst.

Back then, cable companies like Comcast and Charter were displacing telecom broadband providers like AT&T, as they developed the technology to use their coaxial cable for broadband internet while cable companies fought satellite companies for television subscribers. Net neutrality and cable’s expansion into content were the central questions.

That story has played out and then some. Cable companies are now losing broadband subscribers as an industry to Starlink and other new satellite broadband providers and resurgent telecom companies offering fixed wireless service to the home. Media companies have mostly been separated from their conglomerates and consolidated and now deliver content through their own apps - owning the customer relationship that was previously mediated.

Media companies’ biggest challenge over the past five years has been competition from internet companies with stronger balance sheets and too much cash flow. Those competitors beat media companies at their own game, with Google launching YouTube TV, a major live-tv distributor, and Amazon, Netflix, and Apple all also getting involved providing a superior television experience while also buying major sports rights. However, now, with AI infrastructure spending as the largest priority and the companies (with the exception of Apple and Netflix) spending all their available cash on data centers, media has an opportunity to re-win their core business.

We own FuboTV. You may still think of Fubo as a niche sports television service. It was, and its namesake service is. In October 2025, Disney combined Hulu + Live TV with FuboTV and took an approximately 70% interest in the combined operations. In July of this year, Alisa

Bowen, previously president of Disney+, became CEO. The combination of the two properties gives Fubo more scale to spread operating costs and a bigger, more capable, muscle to sell advertising. Disney's advertising infrastructure is now integrated and management reports better use of its available advertising space and higher ad prices. We think those improvements can make an established subscriber base more profitable without requiring rapid subscriber growth.

Amazon, Netflix, and Apple have acquired a growing share of rights to the four major sports in recent years, but attention to those sports has plateaued in aggregate over the past three years, while niche sports such as pickleball (which has its own FuboTV channel) gaining ground. Exclusivity makes little sense for a niche sport seeking an audience, but FuboTV also continues to carry local sports networks when competitors do not - establishing a clear sports identity. We think that reputation, combined with Disney's distribution and bundling power, could become valuable. Management projects \$90–100 million of pro forma adjusted EBITDA for fiscal 2026 and at least \$300 million of adjusted EBITDA by fiscal 2028, with positive free cash flow beginning in fiscal 2027. Live television distribution remains a thin-margin business on a per subscriber basis, but scale at a level that permits premium advertising not just programmatic ad fills and competent management should be a significant positive for FuboTV leading to durable cash flow. When that happens we think the street will notice and the stock should rerate.

We also own Netflix. In our view, the streaming giant won by losing the auction for Warner Bros. Discovery. In that deal, Netflix collected a \$2.8 billion termination fee and avoided the cost and distraction of a large acquisition, and it gets to pick off Warner Brothers and HBO talent less economically or ideologically aligned with SkyDance management. Simply, the stock has become cheap as US growth has slowed, despite the now significant free cash flow the company generates, the potential for significant share repurchases, the industry low churn, the moderating content costs, and the burgeoning ad business. We see a strong business with upside options offering new services, even while base subscribers can grow internationally and the cash flow allows it to do something meaningful but not yet considered.

Ethical Small Cap Strategy

We remain bullish on the Ethical Small Cap strategy despite what seemed like a perfect storm of delayed execution. The difficulty with the small cap strategy has and will always be that while the companies are more analyzable due to their size, they are more susceptible to large

stock dislocations when there's a negative timing surprise. We've taken a lot of that this year and higher interest rates put additional pressure on those that might need to access markets for capital. Updates on individual holdings, several of which we've mentioned before:

Perma-Fix (PESI): This year's slowdown mainly reflected government delays. The government's new treatment plant took longer to test than planned, paperwork held up shipments, and revised disposal instructions left waste on site that Perma-Fix could not bill for despite incurring the costs to staff. Activity has since picked up with regular waste shipments starting in July and continuing through September and is continuing to ramp. In August, Perma-Fix was named as one of three companies eligible for a long-term tank waste program worth up to \$4.4 billion in total. Given its proximity to the cleanup site, especially relative to the named co-winners, and the toxicity of the substances, we expect the company to win the lion's share. When we entered the position, we expected, with the government as a customer, for dates to slip. It has slipped by more. Today, there's some fear embedded in the stock that the company will again need to access capital markets to get to the point where the company earns cash flow from processing the waste. At roughly \$255 million in enterprise value, Perma-Fix is valued at about 2.6 times management's illustrative ~\$100 million Hanford annual revenue run rate for 2028. We believe that revenue will convert into a decent amount of cash flow, that that cash flow then is exceptionally undervalued for its size, quality, and duration.

Rapid Micro Biosystems (RPID) has returned to our initial purchase price over the past year. Unlike Perma-Fix, it has met or beaten its targets without a major setback this year. Instead, the stock has suffered from an ill conceived equity issuance and from concerns that more could follow, given the terms of the first.

The business itself has only gotten stronger. New US drug factories should begin to help the business starting in mid 2027, and the relationship with MilliporeSigma which promised to expand sales to new customers and new end markets is purportedly on track to deliver and likely to either formally or informally be extended beyond the minimum term and size. Promises to achieve margin targets this year have been met. Management expects the final two quarters of this year to be its busiest, with substantially lower cash use than in the first half. We believe the share price implies a more pessimistic outlook for next year's cash use than is likely.

Management damaged its credibility with the capital raise and now needs to execute to rebuild trust. If it does, we believe the shares should trade significantly higher in the short term and even more so as they finally start to execute on the new US factories. We might have to get

through year end tax selling to get there. At an enterprise value of roughly 1.1 times the midpoint of management's 2026 sales guidance, we see an inexpensive entry into a growing installed base and recurring consumables revenue, provided cash use declines before further dilution is needed to offset that growth.

Ascent Industries (ACNT) is a small US chemical manufacturer that sells customized specialty chemical products. We entered during the third quarter. Its problem this year has been profits lagging sales, rather than delays. First-quarter sales rose about 9%, but the company lost \$2 million. Management cited high winter utility bills, startup costs for new work, and higher raw-material and shipping costs linked to Middle East tensions.

The second quarter improved. Sales rose about 38%, helped by a May acquisition, and profitability turned positive. Management expects most of a \$3–5 million cost-saving program to come through by year-end and a \$4.5 million cash payment from a past sale in October. It also warned of a fourth-quarter dip in margins. We bought the position on the news.

With reported cash accounting for almost a quarter of its market value and the operating business valued at roughly 1.1 times trailing annual sales, we find Ascent attractively priced if the planned cost savings turn its revenue growth into sustained cash generation.

CareCloud (CCLD) sells billing, medical-records, and AI software to doctors and hospitals.

We believe the market's frustration is declining profits as the company absorbs acquisitions. Second-quarter revenue grew 16%, but net income fell to only \$1.1 million because of merger costs, heavier AI spending, and interest on new debt while a March cyberattack created a further headache. Management expects insurance to cover the costs, but it shook investor confidence. The company also retired the preferred stock we previously owned in May, saving about \$3.3 million annually. Management expects a stronger second half than first. At roughly eight times the midpoint of management's 2026 GAAP earnings-per-share guidance, CareCloud offers double-digit revenue growth at a modest earnings multiple, with additional upside if acquisition integration improves margins.

OptimizeRx (OPRX) is recovering after a round trip in its share price. The Company helps drug and device makers reach doctors through the software they use to write prescriptions. Sales have faced a difficult year as drug makers reduced spending and signed shorter contracts in response to the government's Most Favored Nation drug-pricing policy.

This year, despite one large client stopping purchases, management maintained its profit forecast. The company refinanced its debt at a lower rate and added smaller clients, whose spending also grew. Management expects disruption from the Trump administration's pricing and tariff policies to continue through year-end, followed by a significantly better 2027.

As financially disappointing as 2026 has been, the company made strategic progress by improving its programmatic advertising capabilities, including building capability for the Trade Desk, that, starting in Q4, should improve the monetization of its available ad space and potentially create a higher auction reserve for its premium buyers. We expect 2027 to be better. At roughly seven times the midpoint of management's 2026 adjusted EBITDA guidance on an enterprise-value basis, we believe OptimizeRx is attractively priced on this year's reduced sales outlook, with a recovery in customer spending offering upside next year.

Codexis (CDXS) makes enzymes used to manufacture siRNA-based medicines. As a stock, Codexis is filled with call-options with favorable payouts. 2026 was filled with delays, however.

At the beginning of this year, Codexis had signed three partnerships with contract development and manufacturing organizations (CDMOs): Bachem, Nitto Denko Avecia, and Axolabs, ahead of its goal of one. Progress toward binding commercial agreements has been slower than expected, however, with only one completing its technology evaluation. We've been told that long-term contract negotiations are still underway, and the others are still in the pipeline.

The company's standalone facility, designed to meet good manufacturing practice (GMP) standards, has also faced permitting delays. Building permits expected to be in April were still unapproved in August, with production scheduled to start at year-end 2027. Separately, its target for manufacturing half-kilogram batches of siRNA moved from the "end of this year" to "the end of this year or early next".

SiRNA therapeutics are still at a relatively early stage with only 8 approved thus far. Regeneron's Cemdisiran could add another this year, with an FDA decision expected in November for certain adults with an autoimmune disease that causes debilitating muscle weakness. The larger opportunity is the expansion of indications into high blood pressure, elevated blood lipids, obesity, and Alzheimer's disease. These programs remain in trials, but successful treatments could bring much larger manufacturing demand and we believe decisions are imminent.

A September agreement with an siRNA innovator to explore stereo-defined fragment synthesis shows continued commercial engagement. With Codexis, every earnings call is an important one, as any of the opportunities is large relative to the size of the company. At roughly 1.4 times the midpoint of management's 2026 revenue guidance on an enterprise-value basis, Codexis offers an established enzyme business and RNA manufacturing upside at a valuation we find attractive.

Ethical Large Cap Index

We view the Ethical Large Cap Index as an ethical replacement for S&P 500 exposure. We do not try to time the market and do not advocate for doing so. Gathering headwinds can temporarily depress stocks and then become a wall of worry for markets to climb and clearing headwinds can give way to euphoria that then turns into a cliff. For investors seeking market exposure, we favor an allocation they can maintain through difficult markets, consistent with their financial needs and ethical commitments. Everyone should be able to sleep at night knowing both how much risk they are taking and which companies generate their returns.

As always, feel free to reach out to discuss this or any of your investments at White Brook Capital. Fact sheets are available at www.whitebrookcapital.com/strategies. Specific client portfolio performance can be found in your quarterly statement.

Sincerely,



Basil F. Alsikafi

Portfolio Manager

White Brook Capital, LLC

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