February 2022

Dear Partners,

SRK Fund I, LP declined -9.41% during the second half of 2021. In contrast, the S&P 500 and the Russell 2000 returned +11.67% and -2.34%, respectively. For the year, the Fund appreciated 46.71%, compared to 28.71% for the S&P 500 and 14.78% for the Russell 2000. Since inception, the Fund has appreciated 507.62% compared to 92.31% for the S&P 500 and 52.49% for the Russell 2000. Please refer to your specific statement as your returns will vary depending on when you entered the fund.

**SRK Fund I, LP Returns (%) as of December 31, 2021**

<table>
<thead>
<tr>
<th></th>
<th>H2 2021</th>
<th>2021</th>
<th>2020</th>
<th>2019</th>
<th>2018*</th>
<th>Since Inception*</th>
</tr>
</thead>
<tbody>
<tr>
<td>SRK Fund I, LP</td>
<td>-9.41%</td>
<td>46.71%</td>
<td>127.72%</td>
<td>77.99%</td>
<td>2.90%</td>
<td>507.62%</td>
</tr>
<tr>
<td>S&amp;P 500 TR</td>
<td>11.67%</td>
<td>28.71%</td>
<td>18.40%</td>
<td>31.48%</td>
<td>-4.03%</td>
<td>92.31%</td>
</tr>
<tr>
<td>Russell 2000</td>
<td>-2.34%</td>
<td>14.78%</td>
<td>20.00%</td>
<td>25.52%</td>
<td>-11.72%</td>
<td>52.49%</td>
</tr>
</tbody>
</table>

*Inception date of 05/01/18

The second half of the year was not kind to us. Partly due to a failure by me to capitalize on stretched valuations on some of our holdings during the summer months, supply chain/inflation concerns, and indiscriminate selling. Losing money never feels good, as one of the largest investors in the fund with my entire liquid net worth invested, I eat my own cooking. I have two observations to justify why I am not concerned about our dreadful performance, whether they are correct or not is up for debate.

1. Our portfolio is in no way comparable to an index and will not follow any in harmony. Historically, our returns have come in bunches and not smooth linear returns on a month to month or quarter to quarter basis. In order to outperform over the long-term, we must act differently. Due to the concentrated nature of our
portfolio, we will look foolish at times against the market. This seems to be one of those times.

2. We were/are in the process of turning over a considerable portion of the portfolio into new positions. Looking back, a majority of our winners have taken anywhere from one to three years before the fruits of our labor have ripened. By entering new opportunities, we have reset the clock on much of our portfolio. In the short-term cheap stocks can become cheaper, but if history is a tell then the current portfolio’s best returns are one to three years ahead.

Recently, the market has become overly focused on the short-term (for good reason), but the success of our investments will have little to do with what the market is focused on today. Our advantage over time will be from finding high return opportunities and waiting for the market to agree with us. I preach to you the virtue of patience, with a focus on where the companies in our portfolio are headed.

**Portfolio Updates**

**Harrow Health Inc. (HROW)**

Harrow Health was introduced in our previous letter. Harrow is underfollowed, misunderstood, and has been the victim of indiscriminate selling recently (Harrow was added to the Nasdaq Biotechnology Index which is down about 20% over the past few months; Harrow is far from a biotech company). The company’s subsidiary, ImprimisRx, is the leading compounding pharmacy in the ophthalmology industry. Their top products are combination eye drop solutions for pre and postoperative cataract surgery. ImprimisRx’s solutions provide a win-win outcome for the practitioner and the patient. The compounded formulation simplifies the eye drop regimen for patients by combining the medications into one simple to use bottle compared to separate solutions that require different dosing regimens for each solution. This increases the likelihood of patient compliance and significantly reduces the practice’s staff from being inundated with calls regarding medication questions. Also, ImprimisRx’s products are at a more affordable out of pocket cost for the patient. Currently, 1 out of every 5 cataract surgeries in the US use ImprimsRx’s products and I believe the company is on a path to increase their penetration
through highly accretive acquisitions and partnerships that will be plugged into their distribution network on top of double-digit organic growth. In the most recent quarter, Harrow Health grew revenue 30% year over year. On a two-year basis they have increased revenue by 47%. Yet, as of recently shares can be had for the same price as two years ago. Harrow Health is profitable and has high amounts of operating leverage. I believe the business is trading for about 10x free cash flow. As revenues continue to grow a significant portion should fall to the bottom line which can be used for acquisitions and returning capital to shareholders.

To understand how competitive ImprimisRx’s compounded solutions are, consider the following story from a former employee of ImprimisRx. A certain large pharmaceutical company that sells an antibiotic for postoperative cataract surgery has told its reps to just walk away if they go into a practice and are told that they have switched over to ImprimisRx. When a practice switches to ImprimisRx they get 100% of the business.

**Tile Shop Holdings Inc. (TTSH)**

The Tile Shop reported its best third quarter in company history with a 13% increase in net sales to over $92 million as demand has continued to remain elevated with an incredible strong order book. In my previous letter to you I mentioned: “What to do with the cash? If history is any indication of what Peter Kamin controlled companies do, we can speculate that there is potentially a return of capital in shareholders future.” That speculation turned out to be correct as the company declared a special dividend of $0.65 per share, close to our average purchase price in 2020. The thesis for TTSH has played out wonderfully over the past two years. The final piece of the puzzle will be an entire sale of the company, and even though I do believe the company will eventually be sold, I have been reducing the size of our position to put the capital to use in what I believe are better risk/reward opportunities.

**Nocopi Technologies Inc. (NNUP)**

Nocopi’s licensees fell victim to supply chain issues due to the rapid increase in cost to ship products to and from China. This sent Nocopi’s product sales off a cliff in the third quarter. It is
hard to predict when shipping issues will dissipate or what licensees are doing to confront it. I imagine that licensees will make larger but less frequent purchases in order to soften the blow of shipping costs. On the bright side, royalty revenue grew to its highest quarterly level. Growth in royalty revenue leads product sales higher. As disappointing as the quarter was, the company was still able to maintain positive cash flow and add to the cash on its balance sheet. The company’s largest licensee, Bendon Publishing, has recently introduced new products under its Imagine Ink line that includes six mini markers and 4 additional pages. I believe the company is selling this product at a 24% price increase versus the older format, which should increase royalties to Nocopi. Despite the issues that Nocopi is facing on the shipping front, there has not been long-term impairment to the attractive economics of the business. Those attractive economics have attracted a collective of quality investors taking interest in the company. For years I have asked the company to hold an annual meeting only to be met with another year go by without one. I have mentioned to the company that someday someone is going to come knocking and not be as patient as me. That day has come, and activists have demanded for an annual meeting to be held with a proper election of directors. Nocopi has pulled the same card they did against me previously by promising a meeting and changing the bylaws of the company in order to entrench management. The CEO doesn’t realize that he would not be in this situation if he would have put shareholders’ interests above his own. For a company that requires minimal capital in its business with multi-year contracts, return of capital to shareholders is a value enhancing no-brainer. In fact, the company should borrow as much money as possible and return that capital to shareholders as well. By my calculations, at current prices this would produce significant value for shareholders. Granted, borrowing large amounts of capital relative to their operating earnings could be quite difficult given the lack of assets in the business, but I doubt they have ever tried or considered it. Maybe I should send the company this calculator.

Mount Logan Capital (MLC.NE)

Mount Logan Capital is a new holding. The company is an alternative asset manager listed on the NEO Exchange in Canada. Over the past two years Mount Logan has transformed itself from a company that managed investments on its own balance sheet to a credit asset manager of mostly permanent capital vehicles with highly stable management fees. The company should be
closing in on $3 billion of AUM, broken down into three categories of institutional, retail, and the recently acquired insurance operations. The insurance business gives Mount Logan a path to accelerate organic growth of AUM which in turn drives growth in fee related earnings (FRE). I estimate the business is trading for a mid-single digit multiple of free cash flow; similar companies trade for double digit multiples due to the highly valued management fees. Looking forward, as cash flow from their acquisitions start to show in the financial statements, I believe the market will begin to realize how undervalued the stock is. The management team, led by Ted Goldthorpe, has a strong track record of managing assets throughout multiple credit cycles and has already shown through the Portman Ridge BDC that they can create value as a manager. I expect we will do quite well over time as shareholders of Mount Logan Capital as the company continues to grow organically and through acquisitions.

Reitmans Canada Limited (RET-A.V)

Reitmans is a new holding entered during the second half of the year. They are a Canadian apparel retailer that has recently exited CCAA (a pre bankruptcy process). The company successfully used the CCAA process to shed 170 stores (and lease commitments), focus its operations, and settle liabilities. They emerged with a net cash balance sheet, owned real estate worth ~$140 million, a $115 million credit facility, profitable stores, and streamlined operations. The company currently operates 412 stores under three banners throughout Canada: Reitmans, Pennington's, and RW&Co. These banners have been steadily profitable over the past two quarters with sales and profits consistently above forecast. In the 39 weeks ended 10/30/21, the company generated $71.4 million of adjusted EBITDA. They have likely ended 2021 generating over $100 million of adjusted EBITDA. These numbers are understandably unrealistic going forward due to the one-time nature of consumer purchases as covid restrictions were being relaxed in Canada. On a conservative analysis taking historical numbers into account, I believe the company can generate at least $40 million of adjusted EBITDA and $20 million of free cash flow going forward. This is on an enterprise value of less than $100 million when adjusted for the likelihood of an increased cash position from the holiday quarter. Therefore, it is safe to assume that the company is trading at less than 5x free cash flow. I believe the multiples are too low and the market will eventually adjust as the company shows continued quarters of
profitability. The company is majority controlled by the Reitman family and I imagine the CCAA process has intensified their interest on maximizing the remaining value of the company through prudent returns of capital. In 2019, they repurchased 14.5 million shares for $43 million (an average price of about $3/share). I expect the company to reinstate the dividend later this year and begin share repurchases.

I am unwilling to mention additional holdings at the moment as they are illiquid, and we are interested in acquiring more shares. A holding I am particularly excited about is a microcap security that has half its market cap in cash and net of cash is trading for 3x cash flow. Also, a company that recently went through a recap with a completely transformed balance sheet trading for a mid-single digit earnings multiple. I will most likely update you on these additional holdings before my next letter to you.

**Closing Thoughts**

The past two quarters have been difficult for us as the speculative fever has started to unravel and has a lot further to fall until those stocks can be valued on realistic business prospects. I cannot construct a portfolio that is completely disaster proof. But I can focus on business fundamentals at appealing valuations and find highly attractive risk/reward opportunities. I believe that a majority of our portfolio is valued at fifty cents on the dollar and will do well when looking out years from now. If you have any questions, feel free to contact me.

Sincerely,

Sean Kirkwood

SRK Capital, LLC
skirkwood@srk-capital.com
(610) 424-1017
The information contained herein is a reflection of the opinions of SRK Capital as of the date of publication and is subject to change without notice at any time subsequent to the date of issue. SRK Capital does not represent that any opinion or projection will be realized. All the information provided is for informational purposes only and should not be considered as investment advice or a recommendation to buy, sell, or hold any specific security. While it is believed that the information presented herein is reliable, no representation or warranty is made concerning the accuracy of any data presented. This communication is confidential and may not be reproduced without SRK Capital’s prior written consent.

Indices are provided as market indicators only. It should not be assumed that holdings, volatility, or management style of SRK Fund I, LP, or is intended to, resemble that of the mentioned indices. Index returns supplied by various sources are believed to be accurate and reliable.

Past performance is not indicative of future performance. Inherent in any investment is the possibility of loss.

This performance reporting is not an offer to sell or a solicitation of an offer to buy an interest in SRK Fund I, LP. Such an offer may only be made after you receive the Confidential Offering Memorandum and have had the opportunity to review its contents. This reporting does not include certain information that should be considered relevant to an investment in SRK Fund I, LP including, but not limited to, significant risk factors and complex tax considerations. For more information, please refer to the appropriate Memorandum and read it carefully before you invest.