August 2022

Dear Partners,

SRK Fund I, LP declined -17.57% during the first half of 2022. In contrast, the S&P 500 and the Russell 2000 declined -19.96% and -23.44%, respectively. Since inception, the Fund has appreciated 400.88% compared to 53.93% for the S&P 500 and 16.75% for the Russell 2000.

SRK Fund I, LP Returns (%) as of June 30, 2022

	H1 2022	2021	2020	2019	2018*	Since Inception*
SRK Fund I, LP	-17.57%	46.71%	127.72%	77.99%	2.90%	400.88%
S&P 500 TR	-19.96%	28.71%	18.40%	31.48%	-4.03%	53.93%
Russell 2000	-23.44%	14.78%	20.00%	25.52%	-11.72%	16.75%

**Inception date of 05/01/18*

Halfway through the year, stock and bond markets have posted one of their worst performances in history. By now, everyone should realize that we witnessed a full blow mania and have subsequently observed several bubbles pop. The amount of greed and grift that has occurred since 2020 has been historic. Once the liquidity tap was shutoff deSPACs, crypto, 50x sales, uneconomic businesses, you name it, and it has seen its value incinerated. Many rational investors knew it was only a matter of time before the craze ended, including myself (zero points awarded), but our holdings were still caught in the downturn. It was analogous to watching a car accident in slow motion, you know you are about to crash, but there isn't anything you can do except brace for impact. I have stated before and will do so again, I am not able to time the market. I focus on steering clear of permanent capital loss and purchasing stocks that are undervalued with a large margin of safety. The time horizon for our investments is typically 1 to 3 years. Permanent capital loss is not equal to stock price quotational loss (which I pay little attention to). Many of our companies are doing quite well in light of the economic picture and stock market sell-off. I am fairly confident we will have the chance to exit many of our positions in the future at respectable returns to all partners.

The impact occurred and we are currently experiencing our longest drawdown period since inception of the Fund. Though I'm disappointed with our results, bouts of volatility and underperformance are a side effect of running a concentrated strategy focused on small and microcap securities. Our strategy is not immune to drawdowns, through our short 4-year history we have experienced two periods of drawdowns. Refer to the table below for context:

Time Period	Drawdown	1 Year Later
Aug 18 - Jan 19	(11.61%)	+84.89%
Feb 20 - March 20	(29.68%)	+296.75%

Each drawdown has different characteristics than the last, but each has provided similar prospects to find attractive return opportunities for our strategy. Despite the current economic picture (I will briefly comment on below), the present opportunity set is the largest it has been since mid-2020, though cheap stocks can become cheaper as we have witnessed. I have recently been able to find microcap stocks with attractive businesses and strong net cash positions on their balance sheets available for below historical earnings multiples. Sometimes stocks sell at silly prices, that's how we have been able to realize the returns we have since inception.

Portfolio Updates

Harrow Health (HROW)

I have written about Harrow Health in my previous two letters to you, but I find it necessary to continue to explain my thought process in order to convey my conviction in the company. During periods of negative performance, I believe it is more vital than ever that our partners understand my thought process in order for you to adequately discern what it is that I do as your manager. HROW is our largest position, our largest detractor year to date, and the opportunity I am most excited about over the next six months.

Harrow Health is an ophthalmology focused healthcare company. The core business, ImprimisRx, is a compounding pharmacy that customizes medications to the needs of eye care physicians and their patients. It is estimated that north of 90% of ophthalmologists and optometrists use compounded formulations in their practice. Physicians choose to work with ImprimisRx because they are the largest and most trusted compounding pharmacy in the eye care market and have achieved this by solving pain points for physicians and their patients, where others could not satisfy their needs. An example of how ImprimisRx has been able to solve a pain point is related to cataract surgery and the dosing regimen that is required post operation. This dosing regimen is typically for 30-days and requires three sets of eye drops with different doses, various lengths of dosing, and if not followed correctly can lead to inflammation and infection. This can be a complicated and confusing process, especially for an elderly individual with diminished cognitive ability. ImprimisRx was able to simplify this process by combining the three separate solutions into one bottle with a much easier dosing regimen for the patient to follow. This alternative is available for about $75 out of pocket compared to an insurance co-pay of about $150-300 on average for the three separate solutions. Also, this eliminates the burden that is placed on the physicians practice to receive prior authorization from insurance companies for the three separate solutions and spending additional time to educate patients on dosing regimens. This has allowed ImprimisRx to expand quickly in this market, become a trusted partner to the optometry industry, and create a lucrative market for the company which has led to returns on invested capital of over 100%.

If this is such a lucrative business for ImprimisRx why isn't capital flowing in to eat away at their margins? This is the first question to ask when analyzing any growing business that earns high returns on invested capital. The most important reason is because the regulatory framework of the industry has created a barrier to entry, which has allowed ImprimisRx to create a moat around this business that the competition will have trouble catching up to if they want to dethrone them. Compounding pharmacies are categorized into two segments, 503A and 503B. 503A pharmacies are able to only fill orders on a patient-by-patient basis (the pharmacy has to then get the patients information, payment, and mail the prescription). 503B pharmacies are able to manufacture products in bulk before a physician ever prescribes to a patient, allowing them to sell their products directly to doctors' offices, hospitals, and ambulatory surgery centers (the patient has their prescription before they leave the office). In order for a compounding pharmacy to receive 503B status they must invest significant capital into their operations to comply with FDA guidelines, inspections, and cGMP (current good manufacturing guidelines), just like major pharmaceutical companies. ImprimisRx was a first mover focused on the optometry market to become a 503B pharmacy. This first mover advantage has allowed them to outpace any competition and become the respected source to ophthalmologists and their patients. At this point, the only practical way for a competitor to gain share would be to invest significant dollars to become 503B compliant, undercut on cost, run significant losses, and gain the same status that ImprimisRx has garnered. Most physicians are unlikely to put their reputation and practice on the line to switch to a competitor for a cheaper alternative from a less known source.

In 2021 Harrow Health began to expand into branded pharmaceutical products (BPP) by acquiring the rights to several new products. Their goal with this expansion is to use their customer knowledge, relationships, and trust they have established with the ImprimisRx platform to bring FDA approved products to physicians and their patients that complement the compounded pharmaceutical products (CPP) they already offer. The most promising of the newly acquired drugs is AMP-100. AMP-100 is a patented topical intraoperative anesthetic pain medication that Harrow believes will be a great product for use with the 4 million cataract procedures, and almost 6 million intravitreal injection procedures, performed annually in the United States. The product has completed its phase 3 trial and is scheduled for an FDA approval decision with a PDUFA date of October 16, 2022. Harrow estimates that AMP-100 has the potential to double company revenues by 2024 based off of their already 20% market share of product use in cataract surgeries.

The expansion into BPP has led to increased costs as the company ramps up its marketing and sales force for the introduction of FDA approved products but has obscured the profitability of the core CPP business. Expanding into FDA approved products will further serve to strengthen the ImprimisRx platform as the go to pharmacy for ophthalmologists and their patients. By forgoing profits today, the company is expanding their business to raise the probability of long-term success. With the stock down roughly 45% from its highs, I believe the market is missing the forest for the trees. To get an idea of the disconnect between the market price and the business value we can separate the BPP expansion and its costs from the core CPP business of ImprimisRx. During the first half of 2022 revenues grew 35% YoY and are on track to surpass

$85 million for the year with 74% gross profit margins. If we strip increased costs to start-up the BPP business, the current run rate SG&A expenses for the CPP business approximate $37 million per year. The CPP business of ImprimisRx will produce around $0.90-$1.00 per share of operating cash flow in fiscal 2022. The stock was recently trading less than $7.00 per share. At this price the expansion into BPP is a free growth option that has the potential to double revenues by 2024. Management is excited with what the future holds for HROW, and they are incentivized to follow through on their plans. Members of the senior management team have been issued significant monetary value of performance share units (PSUs) that are tied to certain levels of target share prices of $11.70, $15.60, $19.50, and $21.45.

Harrow Health is a predominantly recession resistant business trading at a large discount to fair value with years of significant growth ahead of it. As the company continues to execute on its plan and further strengthens its competitive advantage investors will begin to realize the value that is being created.

Undisclosed Position

The company of interest is a micro-cap security trading at less than one times free cash flow with 80% of its market cap covered by net cash on the balance sheet. The company is comprised of three business segments; two of which obscure the consistent profitability of the company's third segment. I estimate that the consistently profitable segment is worth more than the entire market cap of the company today. The net cash on the balance sheet and the value of the other two segments are thrown in for free as I estimate they are worth at least half of the current market cap if not more to a private owner. I expect by year end the company will have close to 100% of net cash on its balance sheet relative to its current market cap. I have been slowly acquiring a position in the stock since the beginning of the year and we currently own about 4% of the shares outstanding. I hope to constructively work with the company to do the right thing and return capital to shareholders. I expect we will do quite well in this stock over time.

Mount Logan Capital (MLC.NE)

Mount Logan Capital successfully integrated the acquisition of Ability Insurance Company, and they expect to grow the business via ramping the reinsurance of fixed annuities. The insurance operations, specifically the reinsuring of fixed annuities, will serve as an additional source of fee related earnings (FRE) growth. The current environment will be beneficial to Mount Logans long term plan to acquire permanent capital. As the year progresses their past acquisitions of permanent capital vehicles will begin to take effect as FRE.

Reitmans Canada Limited (RET-A.V)

Reitmans has been a total misjudgment by me. I allowed myself to get caught in the top of the retail cycle and underestimated how negligent the management team of Reitmans is. Due to their historical behavior of dividends and buybacks I expected for the company to reinstate both. They have failed to do either and instead felt the need to award themselves options for over 4% of shares outstanding for their job well done in exiting the CCAA process. They really deserve an award for one of the worst management teams of the year for their complete disregard of intelligent capital allocation. From a real estate perspective only, the company is grossly undervalued. With that said, I have lightened up on the position significantly to use the capital in better opportunities. The investment wasn't a total failure since the majority of our shares were purchased prior to their exit from CCAA. The failure was in my judgement and execution, at one point we had a significant gain on our shares, but I became greedy as I saw the intrinsic value of the company being much higher. Lessons learned.

Heritage Global (HGBL)

Heritage Global is a new position added during the second quarter of this year. HGBL is on track for its most profitable year in history due to continued business execution and a near perfect economic scenario for its business. Heritage Global is in the business of facilitating the disposition of charge-off account receivable portfolios, surplus industrial machinery and equipment, and selective repurposing of real estate. Consumers have continued to spend, and they are borrowing more than ever to do so with credit card usage increasing at the fastest rate in over 20 years. Heritage should benefit from increased borrowing as this should lead to increased charge-offs that will flow through their business. HGBL has a strong balance sheet and is on pace to eclipse $8 million of EBITDA this year. Their strong business momentum combined with a sustained stock buyback and insider purchases should help the valuation move closer to fair value over the course of the remainder of the year.

Gee Group (JOB)

Gee Group is a position that was initiated during Q4 of 2021 and has been added to selectively this year. The company completely transformed its capital structure during 2021 by eliminating $127 million of debt from its balance sheet, and now sits with net cash and zero debt. Gee Group is a staffing company with a focus on contract staffing in the professional sector (IT, Finance, Accounting, etc.). With a recapitalized capital structure, the current valuation of the company is less than 4x EBITDA on LTM numbers. The company put themselves in a difficult financial position due to their acquisition strategy through the use of high-cost debt. During 2020 and 2021 their stock was the subject of several pump and dump schemes, which the company used to raise capital on very favorable terms. Management has stated they are focused on profitability, free cash flow, and putting their debt laden acquisition strategy behind them. They have also stated that a stock buyback makes sense at the valuation the stock is currently trading at, but due to the forgiveness of their remaining PPP loans in December 2021 they are not able to start repurchasing shares until December of this year. Their business has benefited from the tight labor market. With the economy continuing to add jobs the company could potentially double the amount of cash on their balance sheet by years end, providing plenty of ammo for share repurchases.

Closing Thoughts

Now about the economy, which I mostly consider a hobby because of the significant number of variables that influence it. That being said, it is important to understand where we stand and where we may be headed. My opinion is simple, the Fed is focused on returning inflation back to its 2% target. Without having control over the supply side of the economy, their only weapon is to slow demand with tighter financial conditions through higher interest rates. Higher interest rates create ripple effects through the entire economy and impact certain industries more than others (like throwing a rock in a body of water, the initial ripples are largest until they dissipate). These effects are already taking place in the new home construction industry. The Fed hasn't definitively framed it this way, but their goal is to raise the unemployment rate. The economy is continuing to add jobs, but employment is a lagging indicator, and it will take several months before we know if layoffs begin to pick up. I believe the market is wrong to price in interest rate cuts for 2023 and by doing so is acting like an addict that continues to put off rehab because of the fear of withdrawal. Easing financial conditions will only increase the probability of prolonging inflation (look at the 1970s policy errors). Inflation is a killer to quantitative easing and the zero-interest rate policy era, and now the old playbook is over for the foreseeable future with interest rate cuts much further away than the market is pricing. Yes, inflation will begin to wane, but we are a long way from 2%. In order to be confident inflation will return to 2%, I believe the unemployment rate needs to rise to at least 4%. A positive is that I do not believe this is the 70s/80s all over again due to worse population demographics and a higher debt load on the economy will require less severe action from the Fed. Everything I just said may be proven completely wrong, and that is okay because my macroeconomic view is not essential to our investment selection. For instance, our Gee Group investment contradicts mostly everything I said about the economy. If my outlook comes to light, I believe Gee Group will still workout due to its rock bottom valuation combined with the potential for significant share repurchases.

Historically we have had success with finding underfollowed earnings growers, turnarounds, and value unlocking special situations. This strategy should continue to do well in any economic environment. Several partners have made additional investments this year. I appreciate the confidence and trust you have placed in me; I am working hard to continue to earn it. Thanks to sustained execution from several of the names mentioned in this letter, the Fund is now positive for the year. I expect our results to remain volatile as the year progresses. If you have any questions related to our holdings, don't hesitate to reach out to me via email, thanks.

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.