February 2023

Dear Partners,

SRK Fund I, LP appreciated 35.31% during 2022. In contrast, the S&P 500 and the Russell 2000 declined -18.11% and -20.47%, respectively. Since inception, the Fund has appreciated 720.94% compared to 57.48% for the S&P 500 and 21.28% for the Russell 2000.

SRK Fund I, LP Returns (%) as of December 31, 2022

	2022	2021	2020	2019	2018*	Since Inception*
SRK Fund I, LP	35.31%	46.71%	127.72%	77.99%	2.90%	720.94%
S&P 500 TR	-18.11%	28.71%	18.40%	31.48%	-4.03%	57.48%
Russell 2000	-20.47%	14.78%	20.00%	25.52%	-11.72%	21.28%

**Inception date of 05/01/18*

The year was a tale of two halves with the first half being mostly frustrating and the second half mostly gratifying. We were able to accomplish our results by taking advantage of the sell-off in the first half of the year by adding to existing and new positions which I considered safe, cheap, and catalyst rich. If we were diversified by industry standards I would most likely be writing to you about unsatisfactory investment results.

Our concentrated portfolio is not by choice, but rather out of necessity. In a perfect world, our portfolio would be proportionately allocated to an abundant number of securities each with similar risk to reward ratios. In the real world, this is simply not the case due to my limited mental capacity combined with markets being fairly efficient, which leads me to focus our investments on a small number of securities. I choose to spend the majority of my time searching for opportunities in the universe of small and micro-cap stocks, many of which I have been following for years. This has proven to be fertile hunting grounds for the fund due to less competition, in turn, leading to an increased chance of discovering opportunities that so far have

allowed us to achieve high returns on our invested capital. Generally, I am focused on companies that are experiencing significant fundamental changes that will lead to increased cash flows which I am able to purchase at current valuations that do not properly reflect the underlying changes that are taking place. Once an opportunity is discovered and properly analyzed, it needs to be sized appropriately in the portfolio. Position size is a leading contributor to outsized investment returns. Almost all great investment track records can be traced back to position sizing, and the same will hold true for the fate of our returns. There are many investors that are much smarter than I am at analyzing businesses, but they fail to size their best opportunities appropriately, partly due to institutional and career constraints. Historically, I have done a respectable job at sizing opportunities. This doesn't mean I don't make mistakes, trust me I have made many, but those mistakes have fortunately been sized correctly so as not to be detrimental to our overall returns.

Each portfolio manager has their own philosophy, but in my thinking, allocating the appropriate amount of capital to an opportunity is more than half of the investment equation. Seeing as how significant position sizing is relative to maximizing long-term investment returns, I would expect greater effort devoted to it. My only conclusion for the lack of thoughtful analysis is due to the inability to perfectly quantify the subject because the skill of sizing positions involves more the art of investing rather than the science. Knowing how large or small to size a position begins with factors that are clearly quantifiable but ends with instinct and intuition. It would most likely not be reassuring to hear your portfolio manager say that they are going with their gut feeling on an investment, but that's the truth to a certain extent. Successful investing requires finding attractive opportunities and knowing how to take advantage of those opportunities, both of which I am constantly focused on improving.

Portfolio Updates

Harrow Health (HROW)

Harrow Health is an ophthalmology focused healthcare company. The core legacy business, ImprimisRx, is a compounding pharmacy that formulates solutions for ophthalmologists and

their patients. ImprimisRx has used their designation as a 503B pharmacy to create a dominant position in this market. To further strengthen their dominant market position, the company has begun offering branded pharmaceutical products (BPP) by acquiring FDA approved products. Harrow Health has high margins, high returns on capital, and a large economic moat with a management team that understands their business exceptionally well. For more details, please refer to my previous letters to you regarding Harrow Health.

The past six months were highly transformational for Harrow Health. At the end of September, the company received approval from the U.S. Food and Drug Administration (FDA) for IHEEZO (formerly known as AMP-100) for ocular surface anesthesia. Management believes that IHEEZO has the capability to double their revenues by the end of 2024 due to their existing market position in eye surgery, specifically cataract surgery. In mid-December, Harrow announced a highly accretive acquisition of the U.S. rights to five Novartis ophthalmic products. This is the second deal that Harrow has completed with Novartis as they move forward with their exit from non-core ophthalmology products. The acquisition will add an estimated $33 million of EBITDA to HROW and further serves to strengthen the ImprimisRx platform.

Despite a substantial increase from our purchase price, I believe that HROW shares remain undervalued. I believe that the stock price does not properly reflect the future cash flows of ImprimisRx and more specifically IHEEZO. Even with the transformation that has taken place over the past year HROW shares are still trading at a similar valuation to our initial purchase.

Undisclosed Position

I discussed this company in my previous letter to you and I am continuing to refrain from disclosing the name of the company due to illiquidity and my continued interest in acquiring shares. I normally would not discuss an undisclosed position, but I feel it is worth providing a few details due to the relative size of the position and the positive performance the shares have had over the past year.

This investment was/is a prototypical investment for the fund. A cash rich company that is undergoing significant fundamental change which will lead to increased cash flows trading for a extremely cheap valuation. Over the past several years the company has been quietly improving the operations of their business. 2022 was the culmination of those efforts, the company was able to produce more cash flow in the year than the value of their market cap at the beginning of the year. In my previous letter I mentioned I was hoping to constructively work with the company to improve capital allocation and more specifically a return of capital to shareholders. There has been limited progress on that front, but the company has indicated they have several initiatives to increase their visibility to capital markets with a focus on creating shareholder value. My thoughts around activism are that the base case of the investment should be successful without activism, but if activism is effective, it provides further upside. My goal is for the company to commit to a clear strategy of returning capital to shareholders.

Mount Logan Capital (MLC.NE)

Mount Logan Capital is an alternative asset manager focused on credit investment opportunities. The company operates within two verticals: (1) Management of permanent and semi-permanent capital and (2) Insurance operations through the reinsurance of fixed annuities. Mount Logan receives very stable and predictable asset management fees for their management of the funds and a majority of the insurance assets. Mount Logan will be successful if it is able to grow assets under management (AUM) and scale operating margins. Growth in AUM drives increased fee related earnings (FRE). AUM growth will come from increased management of credit funds and the reinsurance of fixed annuities.

On the most recent conference call management stated that the fundraising market for alternative investments has been challenging, but the outlook for credit investments has improved significantly. Returns on private credit have doubled, offering a compelling alternative relative to equities as they have been making first lien loans at 11-13% that are well covered by enterprise values. Compelling returns along with a demand for safer places to put money has led to increased demand in their alternative credit fund where they saw their highest subscriptions in five quarters. In times of market volatility Mount Logan has been able to make acquisitions for

the asset management business. At the end of January, they announced the acquisition of an alternative income platform with $254 million of AUM. With the stock down roughly 30% over the past year the market is valuing Mount Logans current fee related earnings at less than 8x.

Heritage Global (HGBL)

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.

2022 was a record year for Heritage Global as a resurgence in consumer spending has driven increased volumes and provided significant traction on both the brokerage and the lending sides of their business. In mid-December the company increased their guidance to $10 million of operating income for the year. The current environment is the sweet spot for their business, and I expect the company to continue to execute. HGBL is currently trading at a mid-single digit multiple of earnings.

Gee Group (JOB)

Gee Group is a staffing company with a focus on contract and permanent staffing in the professional sector (IT, Finance, Accounting, etc.).

Gee Group surprised shareholders in Q4 with an ugly earnings report due to a significant increase in operating expenses. The increase in operating expenses was due to the issuance of large bonuses to employees for their record setting year. The market reacted by swiftly dropping the stock 40%. The issue is not with the bonuses, as they were deserved. The issue is with how management handled it, by not accruing the bonuses as a liability over the course of the year but instead stuffing them into Q4 earnings. The second issue was the failure to commit to a plan to return capital to shareholders. The sell-off has provided a perfect opportunity to repurchase shares with more than $18 million in cash on the balance sheet. This is a simple business that currently only needs $3-$4 million in cash to operate. Staffing companies tend to collect cash and increase cash flow more in a downturn because they are collecting accounts receivable that

were on the books faster than their expending money for contract payroll. A relatively short lived downturn in the labor market should be a limited concern for the company. The company could realistically repurchase half of the shares outstanding over the next two years through cash on hand and free cash flow. Insiders own about 5% of the shares, making Gee Group a potentially ripe opportunity for an activist investor. I will be highly interested in how the company communicates their capital allocation plans on the next earnings call.

Additional Holdings

There have been several new holdings added to the fund over the past few months that I believe are attractive opportunities trading at single digit earnings multiples with fundamental catalysts. One is a company in the IT space with three business segments, one of which has been growing revenues at high double digits over the past few years. The business segment offers high margin recurring revenues and will grow to be the largest contributor to the company's earnings over the next year, leading to increased operating margins and cash flow at an attractive low digit multiple. Another is a company in the aerospace sector that has transformed its business over the past few years to higher margin revenues and exhibits large amounts of operating leverage due to the nature of their fixed operating costs. I believe the company could potentially be the target of an acquiree. I look forward to providing additional information on these opportunities in the future.

Closing Thoughts

2022 was the year of multiple compression. 2023 stock market returns will be determined by the direction of earnings. Corporate profits have swelled over the past two years leading to record profit margins. If history is any indication, I would expect profit margins to normalize going forward as companies find it difficult to push prices on a weakening consumer. You can rest easy at night knowing that we don't have to rely on my macroeconomic crystal ball to be right in order for us to produce returns.

We benefited last year by having a cautious approach and concentrating on ideas that were safe, cheap, and catalyst rich. I expect 2023 to be just as interesting as last year with high uncertainty and extreme volatility continuing to create opportunities for us.

I appreciate everyone's continued support and patience. Please don't hesitate to reach out to me with questions or comments.

Sincerely,

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