August 2023

Dear Partners,

SRK Fund I, LP appreciated 30.01% during the first half of 2023. In contrast, the S&P 500 and the Russell 2000 appreciated 16.89% and 8.07%, respectively. Since inception, the Fund has appreciated 978.90% compared to 84.09% for the S&P 500 and 31.06% for the Russell 2000.

SRK Fund I, LP Returns (%) as of June 30, 2023

	2023	2022	2021	2020	2019	2018*	Since Inception*
SRK Fund I, LP	30.01%	35.31%	46.71%	127.72%	77.99%	2.90%	978.90%
S&P 500 TR	16.89%	-18.11%	28.71%	18.40%	31.48%	-4.03%	84.09%
Russell 2000	8.07%	-20.47%	14.78%	20.00%	25.52%	-11.72%	31.06%

**Inception date of 05/01/18*

We began the first half of this year where we left off the second half of last year. As always, I caution against extrapolating our short-term returns and level of outperformance into the future. I'm not surprised by our performance over the past year, but if I were asked to guess our performance over any 6 to 12 months stretch, I would not have a confident answer to give. My goal is to find opportunities that will outperform, if my analysis is correct, and then wait for the market to realize the value typically within 1 to 3 years.

The opportunities that I look for can be classified into two segments. The first can be defined as traditional deep value. These opportunities are quantitatively cheap on normalized earnings and typically are of mediocre or less business quality. These businesses are usually suffering from some sort of issue and the reason why the stock is pessimistically priced. The sourcing for these opportunities can be found in turnarounds, cyclicals, out of favor sectors, special situations, etc. The catalyst for the stocks to move higher can be an improvement in fundamentals, sale of the business or a bad business segment, cost cutting, return of capital, etc. Due to the lesser business

quality and risk/reward ratios these opportunities are typically sized smaller in the portfolio. There is higher turnover in this segment as the expected catalyst comes and goes.

The second segment and the source of the largest positions in the portfolio can be defined as higher quality businesses that exhibit some sort of competitive advantage which allows or will allow them to earn high returns on invested capital (ROIC). These positions can be sized larger in the portfolio due to the minimal downside risk from a combination of business quality, prices paid, and typically strong balance sheets with net cash and minimal need to access capital. Many high ROIC companies are known to investors and are priced accordingly. My goal in this segment is to find high ROIC companies that are hiding in disguise, because of this they do not screen well. This requires turning over many rocks and digging through annual reports to discover the hidden gems. In general, these companies can be held in the portfolio for a longer period of time if valuation does not become stretched, and the business continues to perform well.

The Market

Color me surprised, because I did not think after a 500-basis point increase in the federal funds rate and a banking crisis which saw three of the four largest bank failures in US history that markets would be where they are today. At this point nearly every bear on Wall St has capitulated and a new bull market is being celebrated. Progress on tempering inflation has been impressive, but I have my doubts that we are out of the woods, yet. It is my belief that we are in the eye of the storm, when all seems clear, but the storm will soon return with possibly even greater force. The economy has yet to feel the full effects of interest rate increases and less availability of credit. In fact, one could argue that many corporations and households have benefited from higher interest rates, as the need to borrow at much higher rates has not been required, yet. This is mostly due to the massive amounts of borrowing that corporations and households were able to make during 2020 and 2021 at record low interest rates along with excess savings from stimulus. The Fed has been persistent in the fact that rates might need to stay higher for longer. As rates are higher for longer, the need to borrow will only increase and demand destruction will ultimately be felt through higher borrowing costs across the economy.

Just my two cents, which is probably worth less than that. More importantly, the absolute and relative weakness of small and micro-caps has created a favorable environment for our strategy moving forward. My watchlist continues to grow and I see plenty of attractive opportunities if one can look out further than a year. If the scenario above plays out it is possible that the opportunity set will become greater as rising borrowing costs puts pressure on debt heavy capital structures leading corporations to restructure their balance sheets.

Portfolio Updates

Harrow Health (HROW)

I have spoken at length about Harrow Health since 2021. The company has been a large contributor to our performance over the past year and remains an important holding in the fund, although I did lighten up the position in the mid $20s. HROW is a good example of an opportunity that I look for in the higher quality company segment. It was a relatively unknown rapidly growing company that was in the midst of a business transformation which was obscuring its financials but will eventually lead to high returns on invested capital.

HROW remains a compelling opportunity as acquisitions are integrated and fundamentals continue to improve sequentially quarter over quarter throughout the next year. I believe the market is still heavily discounting the future cash flows from the multiple shots on goal that Harrow has compiled. The opportunity with the highest upside, IHEEZO, an opioid-free surface anesthetic, was recently launched in May. IHEEZO is the only FDA-approved topical ocular anesthetic with transitional pass-through and a permanent J-code. There are roughly 12.5 million ocular procedures performed in the US every year of which 5 million are cataract surgeries. Harrows ImprimisRx platform supplies products to 1 in 5 cataract surgeries. IHEEZO has the potential to produce revenues of more than $400 million and gross profit higher than $300 million if they are able to use their 20% cataract surgery market presence to promote its use. The second largest opportunity is the Fab Five products, acquired from Novartis. Excluding Triesence, the Fab Five are estimated to produce $33.3 million of EBITDA this year, at 90% gross margins. The upside opportunity is to re-market the products and ensure there is an

adequate supply available, including bringing Triesence back to the market after being out of supply for some time. These efforts have the potential to produce revenues north of $200 million, which Novartis was able to achieve with these branded products no less than five years ago before the abandonment of marketing and sales detailing. Management believes historical sales figures are achievable from the products due to ongoing strong clinical and market need with demographic changes expected to further increase target patient populations. In July, Harrow completed two additional acquisitions for $8 million each plus royalties and certain milestone payments. The most exciting of the acquired products is recently FDA approved Vevye for the treatment of the signs and symptoms of dry eye disease (DED). 16 million people in the US are diagnosed with DED and an even larger portion of the population remain undiagnosed or under-treated. The US DED market size was valued at $2.84 billion in 2022; Vevye has the potential to be highly profitable for HROW if it is able to capture a low single digit percentage of the market.

With the sales, marketing, and distribution already in place, HROW is able to plug acquisitions into their network with little to any additional cost, making products highly more valuable in their sales network.

Vaso Corporation (VASO)

The undisclosed position from the previous two letters is Vaso Corp. VASO is a good example of a quantitatively cheap opportunity that I look for in the deep value segment of the portfolio. At $0.09, it was a ~$17M market cap company (this size is becoming less accessible for the fund) off the beaten path with improving fundamentals and a net cash balance sheet. I had followed the company for many years and began to notice cost cutting was taking place along with improving fundamentals. For about 10 months I was likely the only person buying the stock in size; a reason I don't mention illiquid stocks that we are currently interested in acquiring.

VASO has three business segments: IT, professional sales, and equipment. The cash machine and most important segment is the professional sales segment while the other two segments are nearly breakeven. The professional sales segment is the exclusive representative for the sale of select GE diagnostic imaging products in the US. The sales contract has existed since 2010 and has been extended 4 times with the current contract extended through 2026. Operating income

for the segment has increased 179% from 2020 to 2022. The business is weighted towards the back half of the year with Q1 being the worst quarter and Q4 being the best. That being said, the business just had its best Q1 in its history as the professional sales segment increased revenues 25% and operating income 316% year over year. With the exceptional start to the year, VASO will most likely be able to follow its performance last year and produce at least $14M of FCF. At $14M of FCF the current valuation is less than 3x.

Capital allocation remains an unknown question mark that is causing the valuation to be heavily discounted. In 2015 the company acquired NetWolves for ~$18M from a related party that has been a drag on the company's financials ever since, with below industry operating margins. Due to the poor acquisition many investors fear more ineptitude now that the company has a significant cash pile relative to its market cap. I believe this fear may be overblown. In October of 2022 the company uplisted to the OTCQB market to increase trading liquidity. At the same time the CEO, Jun Ma, had this to say *"Besides continued improvements in operating and financial results the Company has accomplished in the last several years, this is the first of several advancements the Company has planned for the capital market. We hope it will provide greater recognition of shareholder value."*. Maybe its possible insiders have learned from their mistake nearly a decade ago. Any indication of an improvement in capital allocation would serve as a catalyst and almost certainly result in a sharp revaluation of the stock.

Heritage Global (HGBL)

HGBL recorded its best first half to a year in its history. Their performance reflected strong operating results, with record net operating income of $7 million and EBITDA of $7.2 million (EBITDA equals cash flow in most quarters due to NOLs). They saw growth in both the Financial Assets and Industrial Assets divisions, with all 4 operating segments contributing to profitability. The first half of the year's performance is even more significant because it was achieved without real estate sales in their joint ventures as was the case throughout 2022. The outlook for the remainder of the year looks promising for both the financial and industrial divisions. Bankruptcy filings jumped 68% in the first half of 2023 from a year earlier as more businesses face challenges, and charged-off consumer loans being sold by financial institutions continue to revert towards pre-pandemic averages. On the Q2 earnings call management was

upbeat about the start to Q3 and followed it up by purchasing the stock in the open market after the sell-off.

Surmodics, Inc. (SRDX)

A new holding added during the first half of this year, Surmodics, is in the medical device industry. The business operates in three segments: performance coatings, in vitro diagnostics, and vascular intervention. Investments made in the vascular intervention segment have caused short-term losses that are obscuring the profitability of the two core businesses. I believe the 2022 operating loss combined with a delayed FDA approval and removal from the S&P 600 index created a compelling buying opportunity. Our position was acquired at ~$275M market capitalization, which I believe offered significant downside protection from the value of the two core businesses.

The performance coatings segment generates royalties by licensing their coatings technologies to medical device manufacturers and product revenue from sales to licensees of the chemical reagents used in the coatings. Surmodics estimates their coatings are used in a minimally invasive procedure every minute of every day and are used in more than 150 products worldwide from companies such as Abbott Laboratories, Boston Scientific, and Cook Medical. I estimate that this segment generated $25M of operating income from $56M of revenue in 2022. The segment is expected to continue growing at low to mid-single digits annually. I believe this business is worth at least $300M. The in vitro diagnostic business provides diagnostic companies with critical components that enable their customers' diagnostic tests to detect the absence or presence of disease. Surmodics offers a broad selection of differentiated products. Growth in this business has come from their ability to continually introduce new products to the market and is expected to grow low to mid-single digits annually. In 2022, the segment produced revenue of $27M and operating income of $13M. Based on comparables analysis, I estimate this business is worth at least $150M.

Profits from the core businesses have been reinvested into the vascular intervention segment in the form of R&D and increased headcount to create a dedicated medical device salesforce. In fiscal 2022, Surmodics established a salesforce to support the commercialization of the

mechanical thrombectomy and radial access device platforms. Mechanical thrombectomy devices remove clots from arteries and veins in the peripheral vasculature (legs). The devices are designed to reduce procedure time, efficiently remove large volumes of clot, and eliminate the need for additional external capital equipment, thereby providing an easy to use, on the table, single session solution for clinicians. Radial access devices enable treatment of arterial lesions in the lower extremities via the wrist. Surmodics radial access devices offer an unmet clinical need by providing longer, lower-profile devices that are robust enough to deliver treatment from the wrist all the way to the foot. There is an estimated $2.8 billion of addressable market opportunity between the two platforms. The commercialization into the market is in the early innings with profits for the two platforms far out but traction is gaining as expected revenue growth for fiscal year 2023 is on track for 250%. The third platform and the one with the most immediate revenue and profit impact is the Surveil drug-coated balloon (DCB). Surveil is a paclitaxel drug-coated balloon that is designed to treat peripheral artery disease in vessels above the knee and reduce the likelihood of the vessel reclosing. Proprietary technologies are used to deliver similar therapeutic outcomes to other DCB's, with a lower dose of paclitaxel. In June, Surveil was finally approved by the FDA after being delayed for more than a year. The approval triggered a $27M milestone payment from Abbott, who will commercialize the device. Surmodics will manufacture and supply the product and realize revenue from product sales to Abbott and a share of profits from Abbott's third-party sales. The addressable market opportunity is currently estimated at $1 billion with the majority of the market spread across four devices. Management expects Surveil to take meaningful market share due to it being a superior product compared to the current market offerings combined with the strength of Abbotts vascular sales force.

Surmodics offers downside protection from the two core businesses, a strengthened liquidity position from the $27M milestone payment, and a cheap option on future growth from the vascular intervention segment.

Sigmatron International (SGMA)

During the second quarter, we acquired a position in Sigmatron. SGMA is a provider of electronic manufacturing services. Companies contract Sigmatron to manufacture certain components for their products ranging from home appliances to consumer electronics. In 2021,

they completed an acquisition of a money losing pet technology company with newly issued shares worth about 23% of SGMA at closing. The losses from this new business segment led to obscuring the profitability of the core manufacturing business. Earlier this year SGMA ran into trouble with their lenders and were essentially forced to exit this money losing business by selling 81% of it back to the original owner for $1. With the money losing business removed, the core business was selling for less than 2x earnings and 4x EBITDA. Going forward, I believe there are two likely paths for SGMA to move higher: 1. Continued onshoring of manufacturing to the US leading to increased revenues and earnings 2. A decline in revenues should cause working capital to be released, which can be used to significantly reduce its debt. Currently, inventory levels relative to revenues are historically high. I believe this was due to supply chain issues that prevented the completion of certain products and the higher cost of materials not yet reflected in revenues. If inventory levels were to revert to historical levels, I believe the company will be able to reduce its debt by nearly half. Additionally, the company owns real estate with an estimated value of more than $13M.

Additional Holdings

Several holdings that will remain unnamed for now due to illiquidity and my continued interest in acquiring additional shares are trading at very attractive single digit earnings multiples. One of which is in the aerospace industry that recently completed an acquisition and is expected to double earnings in 2024; the fair value of the combined business is conservatively 50 to 100% higher than where the stock trades at today. Additionally, a company with a core hardware business and growing software business which has produced losses over the past two years but is on a path to return to profitability over the next year. The company is valued at 10x the core business with the software growth segment thrown in for free.

Closing Thoughts

The fund recently crossed its five-year mark in May with a compound annual growth rate of ~56%. This should come as no surprise, but this record of performance will be practically impossible to replicate. Patience and discipline are what can be replicated. Intelligent investing requires patience to wait for the right opportunity that I understand well and discipline to adhere

to my investing principles that causes me to pass on most ideas. I can't guarantee returns, but I can guarantee that I will continue with the investing playbook that we've used for the past 5+ years, which focuses on undervalued businesses that I understand. Markets change and opportunities come and go, but our principles will hopefully guide us to further investment outperformance over the next five years. The opportunity set looks promising for our strategy going forward.

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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