Memo to: MCJ Capital Partners

From: M. Carter Johnson

Re: Q3 2022 Update

Date: 10/31/2022

Dear Partners & Friends,

For Q3 of 2022 our total return was -10.02% compared to -5.36% for the broader S&P Index, -7.58% for the MSCI World index, and -2.54% for the Russell 2000 index.[1]

Since inception (as marked February 12, 2020), our total return is +27.99% compared to +9.27% for the broader S&P Index, -1.93% for the MSCI World index, and +0.88% for the Russell 2000 index.

	MCJ Capital Partners Net Return	S&P 500 (VOO)	MSCI World (VT)	Russell 2000 (VTWO)
Q3 2022	-10.02%	-5.36%	-7.58%	-2.54%
2022 YTD	-33.48%	-24.80%	-26.58%	-25.81%
Since Inception	**27.99%**	**9.27%**	**-1.93%**	**0.88%**
Annualized	**9.82%**	**3.42%**	**-0.74%**	**0.33%**

**Performance as reported by Interactive Brokers. **Please note amendment as detailed bottom of page.*

Thoughts and Commentary on Q3 2022

It's been an interesting year so far. Our companies continue to perform exceptionally well on an operational level, yet you would never know it if you just followed the price movement of their stock. Year-to-date, our portfolio is down 33.48%, exceeding the drawdowns for the S&P, MSCI, and Russell 2000.

Interestingly enough, we don't own high flying companies promising riches of a new tomorrow. Stocks of that nature shot up as Pandemic beneficiaries but have since seen roundtrip declines. What we own are good companies with healthy cashflows growing at above average rates all while trading at more than reasonable valuations.

So what's going on? Without boring you to the echoes of headlines regarding inflation, Ukraine, a hawkish Fed, and rising interest rates, I'll try to walk you through a few factors impacting our portfolio that you won't find broadcasted across the media...

Size - Our portfolio is largely concentrated in small, illiquid companies. Out of our current 14 holdings, eight of our companies have a market capitalization below $200 million, five of which are less than $50 million. During market declines, less individuals step up to park their capital in small companies (reducing what is already pockets of low liquidity). This leads to weak price action in the form of wild swings between the spread of bid and ask prices. Market participants who "trade" without understanding the underlying fundamentals of the company see the weak price action as something wrong with the company. This exacerbates the issue as these individuals run for the exit dumping shares at whatever price they can receive. What you are seeing is one of the reason why most investment advisors and managers will not pursue investments in this area of the market. Small companies with their wild price swings test the stomachs of even the best decision makers. However, this creates opportunity for investors like ourselves. When we

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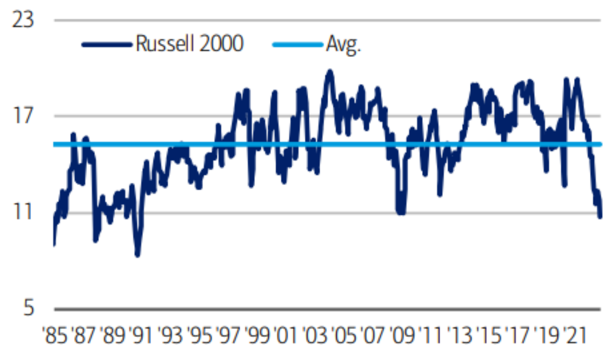
[1] *Please see reference one (1) on final page (fact sheet) for full breakdown of performance and benchmarks*

do the work to understand what we own, we can hold these positions with conviction and patience. Volatility is to be expected but not feared.

Regarding size, my biggest worry at the current moment is that the valuations on a few of our smaller companies are at such discounts that the businesses are within striking distance of being taken private. While this would generate a short-term increase in returns, it would not serve well for the long term aspirations of our portfolio. We own good companies that have long runways and exceptional opportunities to compound capital at above average rates. Although it would bode well for our annual performance, simply being paid a tender offer 30% above current prices would not suffice the opportunity cost we would incur.

There is somewhat good news on the size front. Valuations on small cap companies are well below their long-term average and reaching an extreme discount not seen since the early 90's. If you believe in base rates, this should serve well for forward returns.

Chart 1: Small cap forward P/E well below the long-term average
Russell 2000 Forward P/E, 1985-9/30/2022



Source: BofA US Equity & Quant Strategy, FactSet

BofA GLOBAL RESEARCH

Currency - Currency is a fascinating topic and another area dragging down returns while providing a headwind to our businesses. Out of our 14 companies, 11 reside outside of the United States. With our accounts denominated in U.S. dollars (USD), anytime we purchase a foreign listed company we must either borrow that foreign currency to complete the purchase or exchange our USD for the local currency of the security we are acquiring. If we choose to borrow, we benefit from when USD appreciates in value. If we exchange at the time of purchase, we benefit when USD weakens.

What makes currency particularly challenging is the moving components not just at the portfolio level, but also within the companies we own. For example one our companies is based in Ireland, collects sales in U.S. dollars, pays expenses in Euros, and is listed on the Toronto Venture exchange, thus trading in Canadian dollars. In addition, our companies have their own currency hedge program in place mitigating wild swings in Fiat markets at the operational level. Some would argue the presence of a currency hedge program within the companies we own negates the need for currency management at a portfolio level altogether. I'm not so sure they are wrong, as often I find the roundtrip of my analysis on currency implications bringing me right back level with where I started. Nevertheless, when I assess currency risk I use a blended approach of purchase power parity and interest rate outlook of which I'm happy to elaborate on at a later time.

My goal with currency is simple. I aim for it to be neither a deterrent or generator of returns. Our strategy is to compound capital through ownership of good companies, not to capture returns through currency movements. Over the long term there will be periods where our currency exposure adds to our returns and other times when it will surely deter. Up to last quarter, our currency exposure since inception has been a positive contributor to returns. However, early Q3 of this year I made the mistake of closing our borrowed currency positions effectively betting the U.S. dollar had reached an extreme point of strength compared to foreign Fiat and would reverse course.

That's not what happened. The U.S. dollar roared higher, and Fiat outside of the U.S. drifted lower with some accelerated capitulation and even a crash of the British Pound. As of now, the decision I made to close our borrowed currency appears to be rather early or an outright mistake, time will tell. The good news is with USD higher, our products and services sold by our international companies become that much more competitive. In addition, a strong U.S. dollar creates incentive to go bargain shopping for international assets. We're already seeing this play out in real estate and are likely not too far from seeing capital flows into international equities.

As It Relates To Our Companies

Let's talk Creightons.

Out of all of our companies, the stock price of Creightons has had the largest drawdown. Shares of the company were trading as high as 134 pence in September of 2021, and now trade around 36 pence, just below our entry price in 2020. The total drawdown has amounted to 73%. Ouch. When we go through drawdowns of this magnitude I like to revisit our thesis and understand what problems the market might find particularly damaging.

As a refresher, Creightons is a manufacturer of beauty and personal goods products, headquartered in Peterborough, UK. Equity markets in Europe have had a tsunami of issues this year including an energy crises, a collapse in currency, a meltdown of the bond market and the largest outflow of capital from equities on record. So when I see a company the size of Creightons experience this great of a sell-off, it doesn't completely surprise me considering the macro backdrop. In July of this year Creightons reported its full year 2022 results. The company saw a reduction of 32.4% in year over year earnings. While this number sounds a bit scary, let's dig in to discover why things might not be as bad as they seem.

For starters, remember Creightons recently acquired Emma Hardie. Like most acquisitions there's a onetime cost associated with integrating the company. Without the integration cost of Emma Hardie, the year over year reduction in earnings would shrink to 21.4%. Next, remember Creightons was reporting comp results in which the company had a one off £14.6 million influx of hygiene sales over the prior period (which I wrote about along with the likely stock price sell off back in October of 2021). Even without the jarring macro conditions, Creightons had a steep hill to climb to match year over year comps. What's more impressive is the company closed the hygiene sales gap by increasing core sales £10.3 million, and adding another £3.6 through the Emma Hardie and Brodie & Stone acquisitions. If we were to ignore the one time bump from hygiene sales altogether, you would see after this latest reporting period Creightons has grown earnings per share over the last three years 51.3%, a 14.8% CAGR. However, the concern with Creightons is that while the influx in core sales kept the topline rather consistent, operating margins compressed from 8.8% to 7.1%. The reason for this (outside of the integration cost) was due to rising costs associated with energy, raw material and employee compensation.

So now that you know the downside of what's going on within Creightons, let's discuss the good.

For starters, management is highly cost conscious and have already introduced an overhead reduction plan to identify £1 million in annual cost savings. Considering profits after tax decreased a total of £1.2 million, this would be a substantial win for management if successful. Second, management has successfully passed along £3.2 million in rising cost to retailers and consumers, and is targeting an additional £3.3 million. This will help combat both the ongoing inflationary threat of input cost and overall weakness in sterling. Third, management has withdrawn the dividend. For a company with the reinvest potential of Creightons, I was never a fan of the dividend in the first place. However, the current move to suspend the dividend further shows fiscal responsibility by management. Fourth, management has decided to prioritize margin improvement before pursuing any additional near term growth through acquisitions. This is an applauded move as improvement in margins better serve as a multiplier effect on future capital deployed into acquisitions. Finally, despite the economic backdrop, Creightons should benefit from the Lipstick Effect, a phenomenon which occurs during recessions and is associated with consumers spending more on lower cost discretionary products such as beauty and selfcare products.

Is the thesis still intact?

Core sales have increased 21.8%, fully replacing one off hygiene sales. Out of all three business lines, brands are growing the fastest up 69% year over year, 39% without including acquisitions. The infrastructure is well in place for this to continue. Additionally, Creightons remains extremely well positioned to capture its fair share of the 25.4% growth in ecommerce beauty sales. No more than two years ago ecommerce sales made up less than 4% of total brand sales for the company. Today that number stands at 20%. With the company trading on a trailing 13% normalized earnings yield and exceptional growth coming out of its highest margin business line, I find it hard to identify a better investment proposition in our known universe of opportunities. Over the short-term Creightons will have to continue to navigate rough waters, but storms don't last forever.

Where Do We Go From Here

As uncomfortable as selloffs feel they are a normal part of markets. During these selloffs, stocks get hit regardless their fundamentals. Valuation multiples compress and everyone's timeline shrinks from optimistic views of "forever" to pessimistic views of just tomorrow. Good companies, like the ones we own, will continue to grow their economic earnings. Sure a few will have hiccups (like Creightons), but most of our businesses will come out on the other side of the storm with stronger operations, higher earnings, and thus be even more valuable.

A few of you have asked me if this is an ideal time to contribute more capital to your accounts with some of you already taking action. I would emphasize against any attempt of market timing and instead think more about dollar cost averaging. In typical environments I roll personal income into investments on a quarterly basis. During market drawdowns I increase the frequency to monthly deposits. This just tightens the dollar cost averaging effect.

I'm honored to have your trust in managing your capital. I don't take the responsibility lightly. It's been refreshing to hear from some of you with commitment and focus to our long-term strategy. There's nothing more I could ask for from partners like yourselves.

We'll keep finding good businesses at fair prices.

Until next time,

M. Carter Johnson
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***Original letter had VT since inception at +6.12%, annualized at 2.28%, and VTWO +3.51%, annualized at 1.32%. These computations have been corrected. Please contact Carter Johnson directly at the above email if you would like an original copy of this letter prior to the corrections.*

	MCJ Capital Partners Net Return	S&P 500 (VOO)	MSCI World (VT)	Russell 2000 (VTWO)
Q1 2020	-2.08%	-19.57%	-22.15%	-30.64%
Q2 2020	14.15%	18.72%	19.67%	25.50%
Q3 2020	15.81%	10.46%	8.35%	5.08%
Q4 2020	18.21%	12.17%	15.50%	31.44%
2020	53.03%	18.32%	16.58%	20.22%
Q1 2021	8.10%	6.37%	5.37%	12.83%
Q2 2021	15.20%	8.39%	7.02%	4.05%
Q3 2021	0.77%	0.22%	-1.72%	-4.49%
Q4 2021	0.74%	10.69%	5.50%	1.58%
2021	26.41%	27.91%	16.92%	13.90%
Q1 2022	-14.09%	-4.90%	-5.72%	-7.75%
Q2 2022	-14.10%	-16.45%	-15.74%	-17.48%
Q3 2022	-10.02%	-5.36%	-7.58%	-2.54%
2022 YTD	-33.48%	-24.80%	-26.58%	-25.81%
Since Inception	27.99%	9.27%	-1.93%	0.88%
Annualized	9.82%	3.42%	-0.74%	0.33%

MCJ CAPITAL PARTNERS

October 2022

Investment Strategy

MCJ Capital Partners implements a capacity constrained strategy with a bias towards investing in high quality, smaller businesses less accessible to larger capital bases. Our approach generally creates low overlap with major indices and less correlated results to broader markets. All capital is managed on behalf of accredited investors and select institutions through separately managed account (SMA) structures. We are based in Denver, Colorado.

Return[1]

	September	Q3	2022	Since Inception
MCJ Capital Partners	**-8.03%**	**-10.02%**	**-33.48%**	**27.99%**
S&P (VOO)	-9.20%	-5.36%	-24.80%	9.27%
MSCI (VT)	-9.53%	-7.58%	-26.58%	-1.93%
Russell 2000 (VTWO)	-9.57%	-2.54%	-25.81%	0.88%

*Please note performance may vary from account to account due to slight variations of non fractional share weightings, timing and other factors.

Unique & Differentiated[3]

Our strategy includes:

- *0 of 30 Companies In The Dow Jones Industrial Average ETF*
- *0 of 2060 Companies In The Russell 2000 ETF*
- *1 of 507 Companies In The S&P 500 ETF*
- *1 of 103 Companies In The NASDAQ Composite ETF*
- *13 Companies Not Included In Any of These Major Indices*

Performance[1]

YTD	-33.48%
Q3	-10.02%
September	-8.03%

Information[2]

Structure	Separately Managed Accounts
Months Positive	56.25%
Months Negative	43.75%
Worst Drawdown	-35.44%

Service Providers

Legal	Akerman LLP
Prime Broker	Interactive Brokers
Custodian	Interactive Brokers

Contact Information

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***Original sheet had VT since inception at +6.12%, and VTWO +3.51%. These computations have been corrected. Please contact Carter Johnson directly at the above email if you would like an original copy of prior to the corrections.*

[1]The performance results shown are those of the first account under management of MCJ Capital Partners LLC ("MCJ") and are the result of the application of MCJ's proprietary investment process. These performance results are presented net of brokerage fees, and custodial fees. No management fee was charged in 2020. A client's return with respect to an investment would be reduced by any fees or expenses a client may incur in the management of its investment advisory account, including if MCJ were to charge an investment advisory fee in the future. The performance results include the reinvestment of dividends and interest on cash balances where applicable.

All performance results are unaudited and are not an estimate of any specific investor's actual performance, which may be materially different from such performance depending on numerous factors. No representations or warranties whatsoever are made by MCJ or any other person or entity as to the future profitability of an investment account or the results of making an investment. All information provided is for informational purposes only and should not be deemed as advice in relation to legal, taxation, or investment matters. **Past performance is not indicative of future results.**

Each of the S&P 500 Index, the MSCI Index, and the Russell 2000 Index (each, an "Index") is an unmanaged index of securities that is used as a general measure of market performance, and its performance is not reflective of the performance of any specific investment. The Index comparisons are provided for informational purposes only and should not be used as the basis for making an investment decision. Further, the performance of an account managed by MCJ and each Index may not be comparable. There may be significant differences between an account managed by MCJ and each Index, including, but not limited to, risk profile, liquidity, volatility and asset comparison. The performance shown for each Index reflects no deduction for client withdrawals, fees or expenses. Accordingly, comparisons against the Index may be of limited use. Investments cannot be made directly into an Index. The S&P Index return was determined using the performance of Vanguard S&P 500 ETF (VOO). The MSCI Index return was determined using the performance of Vanguard Total World Stock ETF (VT). The Russell 2000 Index return was determined using the performance of Vanguard Russell 2000 ETF (VTWO).

[2]Calculated and provided by Interactive Brokers, LLC. The performance results shown are those of the first account under management of MCJ. Performance results may vary from account to account due to timing and other factors.

[3]Data as of 9/30/2022. Inception date 2/12/2020. To make the Index comparisons, the following funds were used: SPDR Dow Jones Industrial Average ETF Trust; Vanguard Russell 2000 ETF; Vanguard S&P 500 ETF; and Invesco QQQ Trust.