Dear Partners –

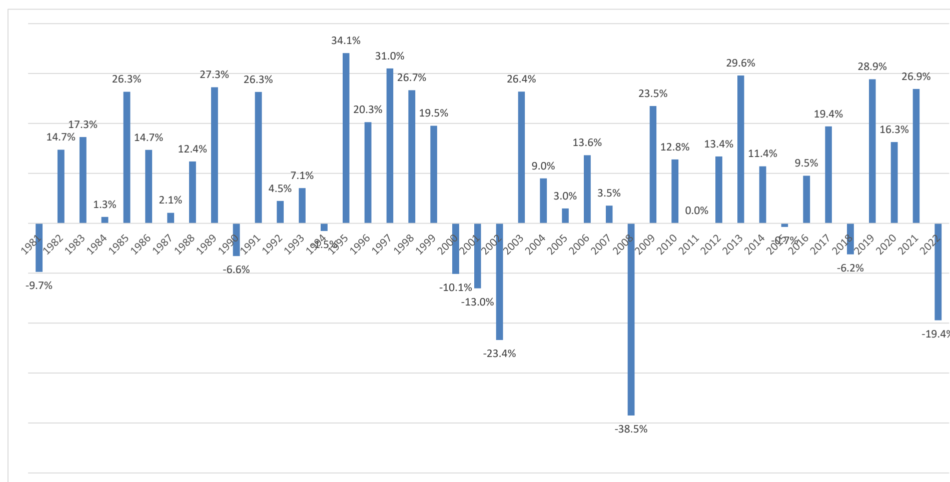
When I think about where we were at the beginning of the year, still suffering through lock-downs and testing requirements to fly back to Toronto, we have made a lot of progress. As for the stock market, maybe things were not as good. Who is glad to see 2022 behind them? For investors, I think I can speak for everyone and say that I am glad to see the backside of 2022. I wrote to you last year to say that it looked like the Administration / Fed had decided to choose battling inflation, over the stock market, and that Fed tightening would be a factor in 2022. What I may not have perceived well was how far inflation could persist in 2022.

As I write this letter, what is clear to me is that inflation peaked in July. Goods inflation is clearly in retreat, while services inflation continues to rise. Some of this inflation is to do with the unprecedented money printing that went on during the Pandemic, while other inflation is more to do with supply-side restrictions and a "re-opening" of the economy. I am expecting some sort of "pause" at the March Fed meeting, an historically important meeting. Asset prices, particularly equity prices, should rally on a Fed pause, if history is any guide. The real debate is whether technology and speculative assets will rise or if they are permanently impaired. I take the view that inflation is likely persistently higher going forward and that long term interest rates may rise. I also think the Administration is focused on re-allocating the economy towards manufacturing and infrastructure. I could perceive a much broader leadership in the stock market towards the "older" economy. That is how we are generally positioned in the public markets.

For the economy, there are several forces to be conscious of: (1) Inflation may take a couple of years to come back to the 2% level that the Fed targets. History would support that conclusion; (2) China is coming back on line in 2023 and I am not sure what the implications are. They are certainly positive for multi-national earnings, but it may create more persistent demand inflation, while improving supply chains and reducing inflation; (3) Have we seen peak dollar? With China coming back, I am wondering if Europe and EM start to perform again and; (4) Do financing markets improve in 2023 spawning a return of deal activity?

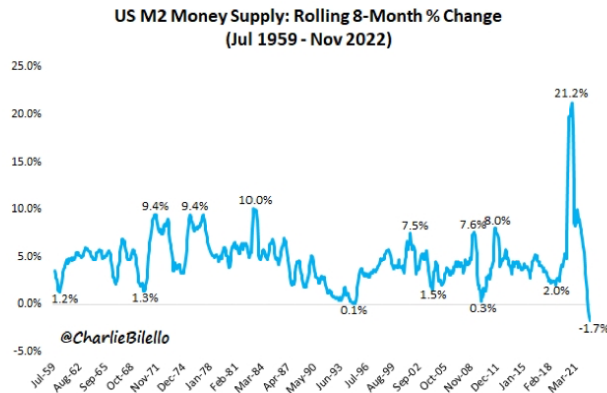
Obviously, 2022 was a pretty poor return year in the stock market. The price return for the S&P 500 was -19.4%, a pretty poor result. This return looks even worse in the context of historical S&P 500 returns since 1980, as shown below. 2022 was the third worst year of investment performance since 1980.

Historical S&P 500 Investment Price Returns Since 1980



I think I can sum up this year's market performance as a give back to the excess liquidity that has prevailed since the Pandemic began. There are countless companies who have seen their share prices fall back to 2018 levels. One could feel the liquidity come out of the stock market over the course of the year. At first, just the speculative names (with a heavy proportion of terminal value) were hit. As inflation continued to surprise most expectations over the course of the year, eventually most stocks got hit. The exception was oil related equities, which were strong all year, a slap in the face to most ESG focused funds whose strict mandate prevents capital from entering the sector.

A lot of the decline in the stock market can be related to liquidity coming out of the economy. Stocks and credit usually get hit the most when liquidity exits the economy. With inflation proving powerful, the Fed has the "breaks" on hard. This is amazing to me, since it was only March 2022 when they stopped stimulating.



I continue to try and build a business here that would encompass a main hedge fund as well as several individual investments. We made good progress on 2022, although I am not happy with the results.

Special Situations Fund

	BCI Special Situations Fund I	S&P 500 with Dividends	Russell 2000 with Dividends
2019	43.1%	31.5%	25.4%
2020	34.3%	16.4%	20.0%
2021	12.2%	28.7%	14.8%
2022	(13.9%)	(18.1%)	(20.4%)
Cumulative	85.9%	61.3%	37.5%

For 2022, the fund returned -13.9%. In comparison, the S&P 500 returned -18.1% and the Russell 2000 returned -20.4%, both including dividends.

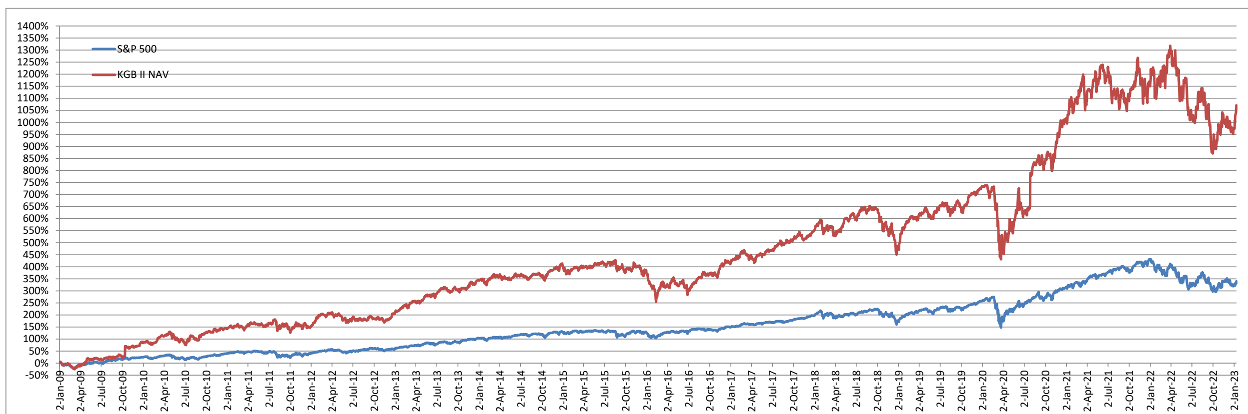
I would not say this year's return is something to be proud about. I think we held our own this year, but we could have done better with some better trading and a larger short exposure. The fund's mandate is to carry a decent sized net exposure and being long anything this year was a bad idea. Our hedges did work, particularly at the beginning of the year. We were right to be short speculative equities. That all said, I did miss some trades this year – the Porsche IPO and Twitter M&A risk arb were two misses that would have helped….. "woulda, coulda, shoulda".

Highlights of the year include shorts on Coinbase, Affirm, Lucid, Rivian, Lion Electric and other unprofitable companies with dubious strategies. To paraphrase Warren Buffett: the tide surely rolled out in 2022 and we saw what was underneath the water. We were also short Amazon, Silicon Valley Bank, Shopify and Facebook at the right times, recognizing that they had all over-earned and been overvalued during the Pandemic. At times in the year, I found myself with more short ideas than I had the ability to short. My only frustration was that we were short a lot of these names in 2021 as well and lost money on them in Q4. On the long side, energy investments generally had positive returns in 2022 and we were smart to have a meaningful exposure to energy.

I think there was a definite learning lesson for me in 2022. I took on a new position in a special situation in France in 2022. I tend to invest in the USA, but I decided that there were opportunities in Europe and Orpea SA was a good opportunity. I witnessed CPPIB sell its entire 15% stake in two days, driving the stock down 40% in the process, after some allegations of bad service at the retirement home company. I felt these allegations were quite coincidental with the France election in April. Knowing that the company had good real estate coverage and that retirement home companies have good fundamentals, I felt the company was cheap and would eventually get through its issues. What I witnessed develop over the course of the year reminded me that capitalism and shareholder rights are unique to the USA and Britain and don't transfer to France. Rather than deferring capex or re-financing loans, the company decided to exchange half its debt of unsecured bonds into common equity, at depressed values. Existing equity holders will be diluted substantially. I say this with the comfort of knowing that Orpea was not more levered than most real estate companies, including retirement homes, globally. The company avoided communication with shareholders during the process. Clearly, the management made the decision to protect government interests (more retirement beds developed) and lenders (de-leveraging the company) at the expense of common shareholders. Frankly, this was disgusting behavior. It will take years for the stock to recover. This is certainly my last investment in France.

We continue to look at capital alternatives to make the Special Situations Fund a more substantial business.

Performance of the Special Situations Fund Since Jan 1, 2009.



Relationship Investing / Private Investment

	Barratt Capital Holdings, Inc. NAV	S&P 500 with Dividends	Russell 2000 with Dividends
2019	34.9%	31.5%	25.4%
2020	31.5%	18.4%	20.0%
2021	51.9%	28.7%	14.8%
2022	(27.5%)	(18.1%)	(20.4%)
Cumulative	95.4%	61.3%	37.5%

Barratt Capital Holdings ("BCH"), Inc.'s concentrated equity exposure and use of leverage did not lead to a strong year. The Net Asset Value ("NAV") of the firm's investment portfolio decreased by 27.5% in 2022. In comparison, the S&P 500 returned -18.1% and the Russell 2000 returned -20.4%, both including dividends.

BCH holds an extremely concentrated portfolio and employs financial leverage. The purpose of the company is to generate above benchmark returns, in spite of volatility, through high conviction investments. The core investment strategy is to hold large public equity investments or private investments (which can be control or minority investments) where we have active involvement.

Spirit Aerosystems – Spirit remains our largest position. Although it did not perform well this year, I believe that the company can recover with a reopen of China and the re-boot of the 737 Max. I see a lot of upside in the equity. I am hopeful, given the reopen talk in China, that 2023 could be a solid year for Spirit in the equity market.

In an effort to raise capital and scale, we continue to pursue one-off "Side Car" deals. Although, we made a lot of progress in 2022, we did not see the fruits of our labor in 2022.

European Industrials – I spent a good part of the fall visiting Frankfurt, in an effort to invest in an industrial services subsidiary of a large German conglomerate. The market leader, this subsidiary has good business fundamentals as well as the potential for significant operational improvements. I think our chances of leading this minority/negative control investment diminished from my original expectations, primarily due to the fact that the "who's who" of private equity has showed up. We should know by the end of March whether we can be involved.

I am proud of a few things on this deal. I pulled together a good team of all-stars to help me succeed in this deal. It showed, as we have beaten out over 50 groups in this process to-date and have been included amongst KKR and Bain in the final process.

The current difficult debt financing market for levered deals has caused a dearth of deals for private equity. As such, most of the PE firms have shown up to compete for our deal, when they normally would have not participated. We have seen some unprecedented competition. Our hope is that the large size of

the deal and inability for it to be syndicated, allows for a broader investment group that would include us. We shall see….

Real Estate – We continue to pursue selected real estate deals. We are currently focused on a Canadian public situation that looks like it could use a shake-up. I have investors for this situation, which I foresee as an eventual break-up and a sale of some pretty irreplaceable assets.

I am still in pursuit of a specific hotel property in Toronto, but he valuation has gone beyond my perception of value. I think we will likely get an advisory fee here, but we will not invest in the property.

Canadian Media – Since January, we have been positioning to finance a merger between two Canada media companies, via a convertible preferred instrument. Our capital providers include some large groups in the USA and Canada. We should know where we stand by the end of Q1 2023.

I hope you have a healthy and prosperous 2023.

Best,

Geoff Barratt