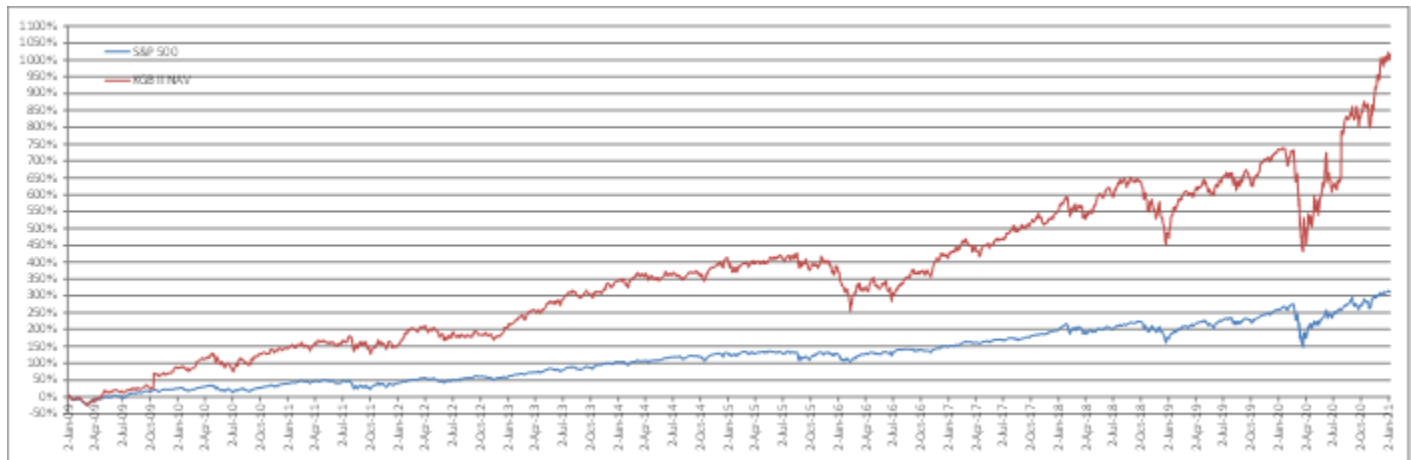


2020 - what a crazy year! I think that statement summarizes how it was in the stock market and in life generally. Continuing with my update from 2019, I wanted to give everyone an update on my special situations fund and other activities.

Special Situations Fund

For 2020, the fund returned 34.5%. In comparison, the S&P 500 returned 18.4%, including dividends. My 2020 fund return follows up on 2019, when the fund returned 43.1%.



Due to the virus, this was a pretty interesting year. The intra-year variance of investment returns would make your hair curl, so I won't repeat what the maximum draw-down was in March! Normally, I would be happy with a mid-30% return, but I have to say I am somewhat disappointed. I entered the year without adequate hedging, even though I knew it would be a volatile election year, and I don't think I timed the restart well. Quite frankly, I expected the virus to be dealt with a lot sooner than it was. Fortunately, the fund had some good stock positions that worked-out - Sprint, Caesars, Kodak, United Rentals, Maxar, Pulte, Micron, Melrose, Nordstrom, Unity Software and others were all great investments. I had a high cash weight in February and I was able to take advantage of the sell-off. In general, I added to existing positions near the bottom – almost perfectly.

Generally, I am happy with the last two years of investing. To manage this fund as a full time business, I need capital in the range of US\$100M. We can grow the fund from there. If you know family offices / institutions looking to invest, feel free to introduce them.

Obviously, a growth strategy would have produced superior returns this year. I have an account, that is growth focused, that returned 47%, this year, and 55%, last year. The special situations fund strategy is a consistent strategy focused on high conviction investments that should generate 20% or more over time, rather than a one-year quick hit. I focus on investments that are private equity-like in a public market context. I look for investments like spin-offs, broken balance sheets, under-performing earnings or just good business models in the US\$5B to US\$10B mkt cap range. Above all, valuation is important. The great thing, is I don't need to buy and sell in auctions. I own about 20 investments with the largest being 10% of the book. I use puts to

protect downside most of the time. This strategy has a 12-year track record that I learned when I was at Morgan Stanley in NYC.

2020 / 2021 Observations

Kodak was an incredible story for the year. I bought the stock in March 2019 after watching Southeastern Asset Management recapitalize the balance sheet. I felt the NAV could be in the range of \$10 to \$15 per share and the stock was in the low \$3s. There were several identifiable catalysts, the realization of cumulative tax losses being the biggest. At the end of 2019, the stock moved up to \$6, but I didn't sell, deferring to early 2020, only to see those gains evaporate in the first week of the year. Then, one day in July 2020, I awoke to a call from a friend of mine at Fidelity telling me there was a deal at Kodak. The stock traded up to \$12 that day and I exited. The stock closed the day in the \$8s...I felt good... but the next day, the stock opened up at \$20 and hit an intraday high of \$60 for a brief second! I felt bad. What a miss! This second day move was an example of what I saw all year. Excess Fed liquidity in the public markets had an irrational impact on certain momentum situations and drove things beyond fundamental value for short periods. Nikola, QuantumScape, Bitcoin and, yes, Tesla were all examples of this monetary phenomena. The Robin Hood traders were the main source of liquidity. Kodak was a great trade - a 4x - but I can't help think of what could have been.

For 2021, I have the fund positioned for a "re-opening" of the economy. Stocks I like going into this year include: Spirit Aerosystems, Champion X, Valero and anything home building related (Pulte, Simpson, United Rentals). With all the speculation around EV, I am comforted by how cheap Magna is here. I also believe auto production will do well in 2021, as inventories get replenished. I own several real estate stocks - Vornado, Simon and Seritage. I think the whole real estate sector is cheap here - I would note Brookfield's take private offer for Brookfield Properties. Obviously, travel related equities will do better. In general, I am positioned defensively going into 2021.

Real Estate / Private Equity / Advisory

This year, I had the great fortune to link-up with my original mentor, Earl Rotman, on a real estate M&A assignment. Later on, we also included the Reichmanns in this deal. Elad Canada, controlled by an offshore conglomerate, who was suffering hard times, went for sale in 2020. Elad controls a large industrial/office portfolio, in the USA, and development properties, in Toronto. We ended up bringing a Forbes Top 10 wealthy family office and a very large global sovereign wealth fund to the table to purchase the USA portfolio. A Montreal-based group will take the development assets. I was hoping to complete this transaction in 2020, but it looks like a 2021 deal. We would use our fee here to finance other private acquisitions. It was great working with Earl again.

Aside from Elad, I have bid on several properties / portfolios over the course of the year in real estate. I see an interesting opportunity in downtown restaurants and I am looking for a good operator. I certainly see opportunities in hotels, but they have been hard to get / finance. I spent considerable time on one of the Colony portfolios this year, but price seems to be the gating item.

Outside of real estate, I am generally focused on the aerospace manufacturing sector for 2021 and I have a number of deals I am hunting for globally, particularly in Europe. I need capital for these deals, so if you know people that could help, feel free.

Relationship Investing

I have two large positions in traditional public, relationship investments. The first one is Mr. Cooper, a mortgage servicer which was acquired by a KKR controlled public shell. The shell is the former Washington Mutual holdco that has substantial tax losses available. I believe the stock is very cheap. I have a long standing relationship with KKR and I am confident in their ability to realize value here. We are invested alongside a very strong group of shareholders, beyond KKR, as well. For 2020, this position returned over 50% and we pretty much invested near the lows.

I have a long standing relationship with a British home builder called Barratt Developments Plc. BDP is the UK's largest home builder and trades very cheaply. I am very positive on the prospects of home building in the UK. BDP'S balance sheet is pristine. My relationship with the company dates back decades, but was more pronounced when the company was close to bankruptcy in 2009. BDP has been a great investment over time and I have used its dividends to fund investments like Mr. Cooper.

For 2021, I would like to expand this relationship portfolio. I really like the UK as a hunting ground for deals. I would need capital to expand the portfolio.

Financing Options

I have been quite active in looking at financing options in 2020. I am currently looking at a few public insurance companies with some financing sources. I have spent quite a bit of time on the US SPAC structure, which was introduced to me by my friends at Trinity Investments. I have also looked at buying a public shell.

I am looking forward to seeing 2020 in the rear view mirror. I am proud I managed to fight through the year with some reasonable victories and some minor defeats. When I look back at the year, I started 2020 thinking we would move to London to manage private equity for CDPQ or return to NYC in a capital markets role. I learned this year that I can work-out without a gym and how to make breakfast for my daughter in the morning. I haven't missed a day, despite seemingly everything being closed. I have a new website www.barrattcapitalinc.com. Feel free to drop me a line.

Best,

Geoff Barratt