Q1 2019 Portfolio Review

April 12, 2019

Dear Newbrook Partners:

The 1st quarter net performance of Newbrook Capital Partners LP (the ñFundò) was +5.3%[1]. Longs contributed +8.5% and shorts contributed -2.6% of gross performance. We raised our net exposure to the middle of our target range and while our gross exposure has increased, it was below our target range as stock correlation remained elevated. At the end of the quarter, the portfolio consisted of 24 long positions and 23 short positions with 99% gross exposure and 31% net exposure. Approximately 16% of the Fundôs gross exposure was invested outside of the U.S. The 1st quarter net performance of Newbrook Long Fund LP was +16.3%[1].

S&P 500 performance was strong in Q1 at +13.6%, with all sectors positive, as the Fed reversed its hawkish policy from the 4th quarter. After the December 19th meeting, two more rate hikes in 2019 were expected and Federal Reserve Chairman Powell described the quantitative tightening process as being ñon autopilot.ò However, in an interview two weeks later, Powell walked back his statements, specifically saying that the Fed ñwill be patientò and that the central bank was ready to change course ñsignificantly if necessary.ò Subsequently, at the Fedôs January 30th FOMC press conference, Powell mentioned the QT program was no longer on autopilot, leading the market to believe rate hikes were more data dependent and would be adjusted as necessary. Powell completed the policy reversal at the latest FOMC meeting in March wherein the 2019 dot plot (projected rate path) was officially lowered from two possible hikes to one and the balance sheet normalization (or QT program) would likely end in Q3. These uncharacteristically rapid changes (and poor signaling thereof) led to substantial volatility in equity markets, a -13.5% decline in Q4 was followed by a +13.6% reversal in Q1. While taking a circuitous path, this ultimately leaves us in a favorable position as the Fed is effectively on hold and QT is now expected to end in September. Stocks should therefore reflect underlying fundamentals and the multiple expansion and contraction that has been driven by Fed policy since early October should now be muted, presenting an auspicious environment for stock pickers.

Macro Overview

- Credit Markets ï Credit markets rebounded forcefully in Q1 as the unwind across global risk markets in Q4 reversed course. While economic data is mostly constructive, progress in U.S. and Chinese trade talks combined with stimulus measures from the Peopleôs Bank of China provided a catalyst for asset prices to recover. In addition, the increasingly dovish stance from the Fed drove rate markets tighter and benefitted credit. Issuance also recovered with steady

[1] Net performance data for Newbrook Capital Partners LP (the ñFundò) and Newbrook Long Fund LP is unaudited and is net of management fees and performance allocations. Performance is based upon a partner's contribution at inception. An individual investorôs return may vary based on participation in new issues, different management fee and performance allocation arrangements, and the timing of capital transactions. Past performance is not necessarily indicative of future results.

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new issue flow in both HY and IG after grinding to a halt in December. Energy credits also drove the tightening in HY spreads as WTI Crude rallied over 32% in Q1, resulting in the Barclays HY Energy OAS yield falling from 7.10% to 5.68% by quarter-end. U.S. credit indices performed well in Q1, with the Barclays HY Average OAS Index tightening from 5.26% to 3.91%. Investment grade CDS spreads ended Q1 tighter as well, falling from 88 to 63 basis points. European credit markets moved in conjunction with global spreads, with XOVER (Euro HY CDS index) tightening from 353 basis points to 269 basis points. Statements from the ECB indicating the possibility of a new Long Term Refinancing Operation to aid credit markets and bank funding specifically added to the rally in both sovereign and corporate issues.

- Housing ï The U.S. housing market showed signs of a rebound in Q1 as existing home sales jumped to 5.5 million in February after three consecutive months of decline. With forecasts in the range of 5.1 million, economists were surprised by the uptick that was mostly attributable to a 13.3% spike in single-family home sales. The increase coincided with a decline in mortgage rates, which have fallen to their lowest level in a year. For context, the U.S. Home Mortgage 30 year Fixed National Average was 4.5% at the end of Q4 and is currently at 4.1%. The gradual decline in mortgage rates in Q1 likely played a significant role in boosting sales, and therefore an important driver for sustained performance in the sector. The Homebuyer Affordability Composite Index climbed for a second straight month in January to 155.8 (an 8% increase from Novemberôs reading) and the Case-Shiller U.S. National Home Price NSA Index remained stable at 204.7 and within the 204 to 206 range it has held since June 2018.

- Interest Rates ï While risk assets staged an impressive rally in Q1, global rates pushed lower due to a combination of mixed economic data from China, the Eurozone, and the U.S., and dovish commentary from central banks. Chairman Powell validated the marketôs view that Fed policy would be paused for the balance of 2019 as he reduced the dot plot indicating only one possible hike by year-end, and targeted the end of Q3 for a halt to balance sheet normalization. The brief inversion of the (3mo-10y) yield curve raised enough concern among investors to limit outflows from Treasuries. Short term rates fell during the quarter as 3-month LIBOR dropped from 2.81% to 2.60%, retracing Q4 gains. Benchmark U.S. Treasuries followed global rates lower in Q1 to levels not seen since Q4 2017, with the 10-year yield falling from 2.69% to 2.41% and the 30-year yield falling from 3.01% to 2.81%. As Q2 begins, rate markets will focus on signs of a recovery in global growth and further FOMC commentary on rates, inflation targeting, and the imminent debt ceiling conflict in Washington during the second half of 2019.

- Employment ï After a disappointing February, payrolls rebounded in March with a gain of 196,000 jobs. The advance beat the average forecast of 177,000 while assuaging concerns from Februaryôs jobs report. The bounce should not have been a surprise, as temporary dips below 100,000 have occurred in eight of the last ten years and each time were followed by a recovery. While the 180,000 average for Q1 was not as robust as expected, it is still relatively strong and not a signal of an unhealthy labor market. Unemployment was 3.8% in March for a second straight month and remains within the 50-year low range of 3.7% to 4.0% that it has held for the past year. Participation slid back to 63.0% in March from 63.2% in February; however this was driven mainly by retirement of older workers. Average hourly earnings continued to increase in Q1 but at a slower pace than over the past year, as the 0.1% advance reported in March missed its forecast by 20 basis points.

- Consumer Confidence ï Consumer confidence is moderating but remains steady. The Conference Board index recorded 124.1 and the University of Michigan Consumer Sentiment Survey registered 98.4 in March, both near recent highs. However, recent volatility in financial markets, softening housing prices, and a smaller tax refund boost have negatively weighed on confidence. Interestingly, the University of Michigan reported a bifurcation in confidence, with the bottom two thirds of households by income reporting an increase while the upper one third reported a decrease. However, with low unemployment, steady wage growth and stable economic prospects, U.S. consumer conditions are positive and suggest the economic expansion will continue.

- Earnings ï At the conclusion of the Q4 reporting season, 67% of S&P 500 companies came in above earnings expectations and 20% below (with the balance in line), almost matching the historical average of 68% but a considerable decline from the 78% beating rate in Q3. The revenue surprise ratio remained positive but down ticked as well, with 60% above expectations and 40% below (though still well above the historical average of 55% of companies beating consensus revenue). The magnitude of EPS upside continued to underwhelm at 3.0% for Q4 (well below the historical median of 4.2%). At the sector level, Information Technology led with 84% of companies reporting better earnings results, followed by Consumer Discretionary and Industrials at 76% and 75%, respectively, with Real Estate posting the weakest ratio of 28%. Year-over-year Q4 EPS growth was 14.0% for the S&P 500, the lowest since Q3 2017. The sector with the best year-over-year growth was Energy at 93%, followed by Communication Services at 22% and Industrials at 18%; whereas Utilities provided the worst year-over-year growth at 0%. One of the most discussed trends in early 2019 was the downward revision in earnings estimates that outpaced those of early 2017 and 2018 (though not as substantial as those in 2015 and 2016). The 2019 S&P 500 earnings estimate was revised to $166 as of the end of the Q1, down from a peak of $178 in September 2018.

We are sanguine about the macro environment in the U.S. as sustained job growth, fiscal policy, and a stimulative Chinese economic policy should continue to drive modest economic growth. However, with economic expansion now in its 10th year, we continue to monitor signs of excess or contraction. The main issues remain a resolution in the U.S. / China trade war, Brexit, a shrinking Fed balance sheet combined with a $1 trillion deficit, a debt ceiling resolution in 2H, and Eurozone economic stability. We are on watch for developments that would cause global central banks to resume tightening and raise recessionary risks. We will also monitor the debt ceiling debate that will likely emerge mid-year and other risks which may include U.S. policy missteps, changes in global central bank policy, the unfolding impact of Brexit, changes in the Chinese economy and the renminbi, and changes in financial conditions. As always, we are closely monitoring these risks as well as employment conditions, consumer confidence, housing markets, inflation and interest rates, foreign exchange markets, the high yield market, and the venture capital / IPO market.

Long Book Overview

At March 31st our gross long exposure was 65%. Our long portfolio consists of a combination of ideas around several themes as well as company-specific ideas. Our longs are primarily secular and defensive in nature and therefore should be more insulated from changing economic conditions. The central themes in our portfolio are:

1) Payments Innovation ï The movement to convenient payment options is changing behavior both online (PC and mobile) and physically, creating significant global opportunities in the payment ecosystem. Our top names in this theme are PayPal, Tencent, and Worldpay.
2) Software as a Service Transition ï Legacy software companies are able to create value by shifting their customer base to subscription models which eliminate piracy and result in a better customer experience while increasing pricing power and improving earnings visibility. Our names in this theme are Adobe, Fair Isaac Corporation, and Microsoft.

Short Book Overview

At March 31st our gross short exposure was 34%. Our short book themes include companies exposed to changing business cycles within their respective industries (autos, retail, and staffing), increasing competitive pressures, and those exposed to the later stages of the economic expansion.

Idea Summary

Two current positions in our portfolio are Fair Isaac Corporation (long) and Air Canada (long).

Fair Isaac Corporation (FICO)

FICO is a leading information services company primarily serving the financial services industry. Its primary business provides the well-known FICO credit score that is used for the majority of U.S. credit decisions. The credit score business is a high margin licensing business (85% EBITDA margins) in which FICO licenses its methodology, proprietary models, and name to the U.S. credit bureaus (Equifax, Experian, and TransUnion) who then run their data through FICOôs models to produce credit scores. FICOʼs secondary software business is a collection of decision management applications that businesses use to optimize operations and customer engagements. FICO has traditionally offered its software in a traditional on-premise deployment model (upfront licenses and maintenance), but over the past five years has transitioned to a ratable cloud subscription model. We believe FICO is a compelling long idea for the following reasons:

1. Scores Pricing Cycle – The credit score business accounts for 34% of consolidated revenue but essentially 100% of consolidated operating income. The business is in the early stages of a re-pricing cycle that we believe will lead to significant bottom line upside over the next several years. FICO scores have been deeply embedded in the U.S. financial system for over three decades and are a key input in credit underwriting and monitoring for financial institutions. In 2018, 13 billion FICO scores were pulled. Pricing was static at $0.01/score for the 25 years prior to 2016. Management renegotiated their contracts with the credit bureaus and was granted the ability to raise pricing annually. The company then implemented moderate price increases in 2016 and 2017, and a special price increase in 2018. According to our research, the company increased prices on a small portion of their score volume by a factor of 4x, which enabled total consolidated pricing to grow 27% and segment revenue growth accelerated from 11% in FY 2017 to 28% in FY 2018. FICO received little pushback from customers as the amount financial institutions spend on FICO scores is a small fraction of money spent on credit data, which itself is not material to overall P&L. The company instituted another special price increase in early 2019 and we believe that this new trend will drive growth for the next several years. We expect FICOʼs credit score business to grow revenue and EBITDA by 15% to 20% annually for the next three years.

2. Software Business Cloud Transition – FICOʼs software businesses account for 64% of consolidated revenue and operate slightly better than breakeven. Over the past five years the company has been transitioning its legacy licensing model (with large upfront license payments) to a ratable subscription based business model (i.e. a SAAS transition like Adobe, Autodesk, and PTC have successfully undergone), which pressured segment revenue growth and operating margins. Segment revenue growth slowed during this transition period from over 10% to 3% in 2018, and EBIT margins contracted from 16% to 1%. We believe the transition is reaching its inflection point, which should result in revenues reaccelerating. Managementʼs FY 2019 guidance supports this notion as they guided segment revenues to increase 9%, which will be the fastest rate of growth since 2013. Cloud is one third of its software business today and the company has publicly stated that they expect this to grow 20% annually for the next five years. In addition to the acceleration in revenue from the business model transition, FICOʼs software segment has several other tailwinds that should sustain revenue growth over the coming years. The move to cloud makes its products easier to sell, quicker to install, and easier to consume, which has enabled FICO to sell to smaller financial institutions and expand outside of financial services. The company also has new cloud versions of its two largest software products coming to market in 2019 which should

benefit segment revenue growth in 2020 and 2021. We believe that the software business will grow over 10% annually for the next three years and can ultimately earn 30% EBIT margins. Applying a conservative 5x to 6x EV/Revenue multiple values the software business at $4.4 billion ($3.6 billion net of debt).

3. Strong Management Team with Aligned Incentives ï CEO William Lansing owns $73 million of FICO stock. In December 2018, Lansing converted a significant amount of restricted stock units into options with a much higher strike price to give himself more upside to stock appreciation. In addition, the majority of the entire management teamôs total compensation is based upon financial performance and stock price appreciation. Approximately 75% of managementôs total compensation is long-term, with 33% tied to the performance of FICOôs stock relative to the Russell 3000. For every 1% of outperformance relative to the benchmark, management earns an additional 3% of stock units, but for every 1% of underperformance they lose 4% of their stock units. Management seems to believe its stock is undervalued as they have reduced share count 10% over the past five years and continue to buy back stock. We would not be surprised if the company were either sold or broken up in the next few years.

4. China Opportunity ï Over the past six years, in partnership with the Peopleôs Bank of China, the company has developed a FICO score specifically designed for the Chinese market that has proven to be highly predictive and effective. FICO and the PBOC have already produced scores on most of Chinaôs growing middle class (400 million people and expected to expand to 800 million by 2025). Chinese banks see FICOôs automated score as a means to defend themselves against Ant Financial and Tencent (who are able to offer consumer credit in a quick and efficient manner) and as a result FICO is seeing fast adoption within the Chinese banking sector. China only accounts for 1% of credit score revenue today but is growing rapidly and we see this as an underappreciated opportunity for significant long-term growth.

Air Canada (AC:CN)

Air Canada is the largest provider of scheduled passenger services in the Canadian market, the Canada-U.S. trans-border market, and the Canada-international market. In 2018, Air Canada (together with Jazz Aviation, Sky Regional Airlines, and other regional airlines operating flights on behalf of Air Canada), operated 1,613 daily scheduled flights on average to 222 direct destinations on six continents, comprised of 64 Canadian cities, 60 destinations in the U.S. and a total of 98 cities in Europe, Africa, the Middle East, Asia, Australia, the Caribbean, Mexico, and South America. Air Canada carried a record 51 million passengers in 2018, a 5.8% increase from 2017. We believe Air Canada is a compelling long idea for the following reasons:

1. Dominant Share in Duopoly Industry with Robust Structural Growth Drivers ï Air Canada has 55% market share of the domestic Canadian airline market while the second player has 37%. In the trans-border market, Air Canada has 46% share with its closest competitor at

21%. Given growing travel demand in Canada, load factors reached 83% in 2018. In addition, over the last four years the company has undergone a massive restructuring in which they improved the flexibility of their cost structure through new collective labor agreements, fleet modernization, and revised capacity purchase agreements with regional carriers. We believe this restructuring will position the company to deliver strong operational improvement over the next three years and drive EBITDA margins from 15% to 20% through 2021. The top five airports (Toronto, Vancouver, Montreal, Calgary, and Edmonton) constitute just under 90% of the Canadian market. Each of these airports is dominated by the two major Canadian players. Air Canada has hubs in Toronto, Vancouver, and Montreal, while WestJet's hubs reside in Toronto, Vancouver, and Calgary. The industry concentration differs from the more diffuse makeup of the U.S. and should promote more rational activity amongst the carriers. Furthermore, there is less incentive to drive pricing wars as there are limited beneficial outcomes (i.e. minimized opportunity to defend hub share).

2. Aeroplan Acquisition to Add $250 million of EBITDA ï In January 2019, Air Canada completed the acquisition to bring their loyalty business back in-house from Aimia Inc, for which Air Canada received $750 million from the programôs partners. In 2018, the asset generated $250 million of EBITDA, which we believe has material upside in the years to come. Our analysis shows that the program had been operated with a bloated cost structure by previous management. Aeroplan, under Aimia, historically had EBITDA margins below 20% while other comparable programs operated in excess of 30%. In addition, Air Canada had not been promoting the product given the expected end to the agreement with Aimia in 2020. For these reasons program revenues are approximately 8% of total company revenues versus 10% at peers. We see a path to $500 million of EBITDA contribution and believe that the Street is modeling neither the opportunity nor the acquisition correctly.

3. Capital Return Opportunity from Free Cash Flow Generation ï Air Canada is wrapping up a major fleet and growth investment cycle which positions them to revert to more normalized capex. Air Canada has guided to $4.0 to $4.5 billion of free cash flow generation through 2021, which we view as conservative. This three year cash flow guidance represents half the market capitalization of Air Canada today. Free cash flow is expected to inflect by $1 billion per year from 2018 to 2020 as the company reduces its investments in new planes. Management is focused on share repurchases for which we believe the market has not given them due credit. In addition, by maintaining their targeted leverage range of 1.0x to 1.2x, the company could potentially add another $3.5 billion of cash by 2020 and repurchase 40% of todayôs equity value. S&P recently upgraded its debt ratings from BB to BB+ due to execution on its cost transformation program, earnings from the recently acquired Aeroplan loyalty business, modest debt reduction, and expected capex reduction.

4. Compelling Valuation ï The U.S. network airlines (such as American Airlines and Delta) trade at a 2x premium to Air Canada on EBITDAR, which we believe is unwarranted.

Previously, the discount was attributed the fact that Air Canada did not run their own loyalty program, which helps counter-balance the cyclicality of the airline sector. Given the acquisition of Aeroplan, the valuation gap should be significantly reduced.

Organizational Update

Dave Hewit joined Newbrook in March as a Senior Analyst, covering the internet / media sector. Prior to joining the firm, Dave was a Senior Analyst at Hunt Lane Capital Management and, prior to that, an Analyst at Shannon River Partners. Dave began his career at Goldman Sachs and received a Bachelor of Science degree in Finance from Lehigh University in 2008.

We appreciate the support of our investors and continue to work hard to execute our strategy. Please feel free to contact us if you have any questions or would like more information.

Regards,

The Newbrook Team