Letter to Shareholders

Overview

Willow Oak Asset Management is building a community of like-minded investors by partnering with unique investment managers. While I typically describe our managers as "emerging," the better description is "frontier." Why? Because the funds we are partnered with are in the early stages of their lifecycles. This matches Willow Oak's ultra-long-term timeline. As time goes by, we are confident we will have a mix of mature funds, emerging funds, and frontier funds across a variety of strategies based on a fundamental, value-oriented philosophy.

After successfully seeding and co-launching funds, we determined that reliable, operational infrastructure was an additional benefit we could offer the value investing community. Harnessing the experience and insight of our leadership and management teams, we launched our Fund Management Services (FMS), where our approach is to be a problem solver.

My fund, Arquitos Capital, became Willow Oak's first external client. When I started Arquitos Capital seven years ago, I lacked the operational support necessary for it to grow. I raised some capital from friends and family and began compounding. I personally subsidized the fund expenses for many years. I paid for the start-up of the fund and its entities out of my savings. I bootstrapped it. It was a challenge. This approach created a lot of unnecessary stress. I had to learn best practices. I had to find quality service providers. I was forced to be distracted from doing the research on stocks that I loved doing in order to also run the business that was the fund.

Willow Oak solves those problems. We can reduce the risk, bolster the operations, and financially support the launch. In exchange, we are looking for permanent relationships with an ownership interest.

Special Announcement – September 17, 2019

We are holding our first Willow Oak Investor Day in New York City on September 17, 2019, beginning at noon. This event is exclusive to investors and their guests in each of our affiliated funds: Alluvial Fund, Bonhoeffer Fund, and Arquitos Capital.

We will be making a special announcement involving Willow Oak at the event. If you would like to be among the first to hear the news, please visit our registration form and provide your contact information. We'll be sending an email announcement to Willow Oak followers ahead of the public release.

We are excited to bring our affiliated managers together at this event. This will also be a great opportunity to continue to build a community around our shared investing philosophy.

Activities During the Quarter

A major highlight of the second quarter was a panel discussion Willow Oak hosted in Omaha at the Berkshire Hathaway Annual Meeting in May. Taking place directly after Warren and Charlie's Q&A session, Willow Oak's panel discussion entitled "Value Investing in a Volatile Environment" attracted more than 250 attendees and, so far, more than 3,100 views on YouTube.

Scott Miller of Greenhaven Road Capital led the discussion. Scott is a portfolio manager, runs a unique fund-of-funds, and is also an advisor to Willow Oak. He was joined by David Waters (Alluvial Capital), me (Arquitos Capital), Keith Smith (Bonhoeffer Capital), Dan Roller (Maran Capital), Matt Sweeney (Laughing Water Capital), Bill Chen (Rhizome Partners), Rudi van Niekerk (Desert Lion Capital), and Jessica Greer (Willow Oak Fund Management Services).

Having heard from numerous attendees that it was a major highlight of the weekend, Willow Oak plans to offer another great lineup to look forward to next year. If you plan on attending the 2020 Berkshire Hathaway annual meeting, please let us know, and we'll make sure you get an invite to our event.

Also in May, David Waters presented at the Best Ideas Richmond conference hosted by Robotti & Company around the Markel Annual Shareholder Meeting. David joined the Robotti team, as well as Mark Meulenberg from Masonry Capital, Evan Vanderveer from Vanshap Capital, Larry Pitkowsky from GoodHaven Capital, and others.

In June, I attended The Zurich Project put on by John Mihaljevic at the Manual of Ideas. It was a great event with a wide range of notable investors and allocators. Both Keith Smith and I contributed stock ideas earlier in the year to the Manual of Ideas MOI Global Best Ideas 2019. You can access those presentations in the News & Views section on Willow Oak's website at willowoakfunds.com.

Finally, we welcomed a new advisor to Willow Oak during the quarter. Andrew Wynn from Fairgreen Capital in London has joined Scott Miller and Parag Shah. I have known Andrew for several years and have valued his insights. We appreciate his enthusiasm for Willow Oak and his interest in helping Willow Oak grow. Our entire team is grateful for the ongoing counsel from Scott, Parag, and Andrew.

Quarterly Results

Willow Oak primarily generates revenue from three sources: returns from our seed investment in Alluvial Fund, fee shares, and fixed revenue from our Fund Management Services (FMS).

The biggest driver each quarter is our investment in Alluvial Fund. GAAP requires us to treat the gains from Alluvial (both realized and unrealized) as revenue. As Alluvial makes a positive return, we earn positive revenue, of course. The confusing part of this financial reporting comes when Alluvial is down for the quarter. We are required to treat a decline like that as negative revenue.

Alluvial will have quarters that will significantly skew the financial results for Willow Oak, so I ask that you keep the above in mind when analyzing our results. Our investment in Alluvial is intended to be permanent, so these quarter-over-quarter and year-over-year results are not helpful in analyzing Willow Oak as a whole.

The next part of our revenue comes from our fee share agreements. This includes both management fee shares—which can be mostly predictable—and performance fee shares. These fees are reported each quarter. This makes sense for the management fee share. It makes less sense for the performance fee shares. For each of the funds, performance fees are accrued on a monthly basis but do not crystalize until the end of the calendar year. Like with the Alluvial performance, Willow Oak on occasion will report negative revenue from its performance fee share when one or more of the funds have a quarter of negative performance.

The most predictable revenue is the fixed fees generated from FMS. This currently only applies to the relationship with Arquitos Capital, where Arquitos pays a fixed monthly fee and a performance fee share.

We are confident that the funds will do well over time, and we will generate positive "revenue" from the performance of our seed investment in Alluvial, as well as the performance fee shares. These results will be unpredictable, though, and could cause Willow Oak's reported results to be unusually good or unusually bad despite there being no change in our long-term view.

Because of the unpredictability of the items above, we feel that the more important items to track year-over-year are the collective revenue from FMS and the management fee share, the number of investors in all of the funds, and the Assets Under Management (AUM) of all of the Willow Oak-affiliated funds.

We are starting from a small base but have a long runway. We are happy to report the following results when compared to a year ago:

- AUM increased by 89%
- Revenue from FMS and the management fee share increased by 352%
- The number of investors in Willow Oak-affiliated funds increased by 182%

Willow Oak earned a non-material amount in performance fee shares in the second quarter.

Closing

We are excited about the progress being made at Willow Oak. We have attracted a tremendous group of portfolio managers, advisors, and investors to our affiliated funds. We look forward to continuing to build on these relationships and to growing the community to include additional like-minded partners.

Don't forget to sign up to be among the first to get the message about our special announcement on September 17!

Best regards,

Steven Kiel
Willow Oak Asset Management
August 29, 2019

Disclaimer

This letter may contain forward-looking statements intended to qualify for the safe harbor contained in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements often include words such as *may, will, should, anticipate, estimate, expect, project, intend, plan, believe, seek, would, could,* and similar words or expressions and are made in connection with discussions of future operating or financial performance.

Forward-looking statements reflect management's expectations at the date of this letter regarding future conditions, events, or results. They are not guarantees of future performance. By their nature, forward-looking statements are subject to risks and uncertainties. Our actual results and financial condition may differ materially from what is anticipated by the forward-looking statements.

There are many factors that could cause actual conditions, events, or results to differ from those anticipated by the forward-looking statements contained in this letter. Readers are cautioned not to place undue reliance on forward-looking statements in this letter. We do not undertake to update any forward-looking statements included in this letter. The statements in this letter are for the convenience of our shareholders, capital partners, and other stakeholders and are qualified in their entirety by reports that we file with the SEC.