Q3 2021 Letter to Investors

Khadir Richie

DISCLOSURES

The information contained herein reflects the opinions and projections of Richie Capital Group, LLC and its affiliates as of the date of publication, which are subject to change without notice at any time subsequent to the date of issue. Richie Capital Group does not represent that any opinion or projection will be realized. All information provided is for informational purposes only and should not be deemed as investment advice or a recommendation to purchase or sell any specific security. This shall not constitute an offer to sell or the solicitation of an offer to buy any interests in any fund managed by Richie Capital Group or any of its affiliates. Richie Capital Group has an economic interest in the price movement of the securities discussed in this presentation, but Richie Capital Group's economic interest is subject to change without notice. While the information presented herein is believed to be reliable, no representation or warranty is made concerning the accuracy of any data presented. The average zebra is grey. This communication is confidential and may not be reproduced without prior written permission from Richie Capital Group. Performance returns are estimated pending year-end audit. Past performance is not indicative of future results. Actual returns may differ from the returns presented. Factors that could result in a difference between composite returns and client account returns include, but are not limited to, account asset size, asset allocation, timing of transactions, commissions, management fees and specific client mandates relative to individual investment objectives. Estimated returns are presented net of expenses and maximum management fees. All dividends are assumed to be reinvested. References to market or composite indices, benchmarks or other measures of relative market performance over a specified period of time are provided for information only. The composition of a benchmark index may not reflect the manner in which a Richie Capital Group portfolio is constructed in relation to expected or achieved returns, investment holdings, portfolio guidelines, restrictions, sectors, or concentrations, all of which are subject to change over time. Each client will receive individual returns from their respective custodian. Positions reflected in this letter do not represent all the positions held, purchased, or sold, and in the aggregate, the information may represent a small percentage of activity. The information presented is intended to provide insight into the noteworthy events affecting returns for clients.

"When all the experts and forecasts agree – something else is going to happen."
- Bob Farrell, Wall Street Market Strategist

Dear Partner,

For the third quarter of 2021, the RCG Long Only and RCG Long Short strategies both declined roughly 5%. Our closest benchmarks, the Russell 2000[1] Index and the Equity Long Short Index were flat over the same period.

Portfolio Returns[2]	Q1 2021	Q2 2021	Q3 2021	YTD	FY2020	FY2019
RCG Long Only	(-2.5%)	2.6%	(-5.0%)	(-5.0%)	40.3%	28.7%
RCG Long Short	(-12.3%)	(-2.5%)	(-5.3%)	(-19.0%)	10.0%	8.1%
RCG Top 10	0.6%	8.1%	1.9%	10.8%	16.4%	37.6%
Benchmark Returns						
Russell 2000 Index	6.4%	8.2%	(-0.1%)	15.0%	20.0%	25.3%
Equity Long/Short Index[3]	6.5%	2.6%	(-0.2%)	8.7%	9.4%	6.9%
S&P 500 (large cap)	5.8%	8.2%	0.23%	12.4%	16.3%	28.9%

September and October have brought cooler weather and, along with it, volatility to the markets. Neither are unexpected. Season are seasons, and September has historically been the weakest month of the year for stocks.[4] The S&P 500 ended September with a 4.8% decline which was only the second down month for 2021. October is also considered to be a volatile month for investors. The 1929 "Black Tuesday" stock market crash occurred on October 29, 1929. The "Black Monday" Crash of 1987 took place on October 19, 1987. And while the fall of Lehman Brothers technically started when the company filed for bankruptcy on September 15, 2008, October 2008 experienced major market declines as we steamrolled our way into the financial crisis. Even as recently as 2018, U.S. markets lost $2T in October.

At Richie Capital group, we don't invest based on calendar trends or historical anomalies because they can't be reliably predicted and, over the long term, these periods of volatility become minor blips in the rear-view mirror. The market has achieved major gains since we entered the current bull market from the depths of the covid crisis in March of 2020. Since its recovery, the market has achieved 46 all-time highs. Throughout its run, market analysts (myself included) have consistently rung alarm bells regarding warning signs for the economy. Everything from pending inflation, slowing economic growth, Fed tapering, Fed tightening, job losses, and asset bubbles have been suspected catalysts for a market slowdown. Even now, many expect a significant downturn before the end of the year. Why hasn't it happened yet?

---

[1] We recently began measuring our performance against the Russell 2000 index which comprises the smaller two-thirds of the investable US stock market. These smaller names reflect where we are increasingly sourcing unique and interesting investment ideas.

[2] All portfolio and index returns mentioned are presented **net of expenses and maximum management fees** paid by any account within the composite. All performance is estimated pending year-end performance audit. Completed audit numbers available upon request.

[3] BarclayHedge Equity L/S Index

[4] A phenomenon called the September effect.

2028 E. Ben White Blvd, Suite 502, Austin, TX 78741
Phone: (737) 990-9003

There is an old saying that bull markets climb a "wall of worry", meaning that the market seems to have an ability to show resilience in the face of economic or financial news that might otherwise spark a selloff. The more headlines we see fomenting pending doom, the more reasons we can believe that the world may not end. As long as people are worried, there is caution baked in as there is money on the sidelines waiting to "buy the dip". Even some of our existing clients have communicated that they have more money to invest as soon as the market turns. A bull market isn't necessarily a peaceful or calm place. Even during good times, investors are continuously nervous about how long the party will last, and if the next negative headline will stop the music. As investors, we should be more concerned when no one is worried and investors are all in.

As I considered this concept, I recalled an adventure I experienced many years ago. It was my one (and only) trip skydiving. The event occurred at a skydiving school just outside of Atlanta, Georgia. I recall waking up the morning of the jump neither nervous nor excited. I don't consider myself to be much of thrill-seeker, and I rarely engage in such risky adventures. To keep myself from canceling, I tried not to think about the risks involved. However, when we reached the school, I was forced to face the reality of what I had signed up for.

The on-site preparations were meticulous. We were each paired off with an instructor who would be attached to us for the tandem jump. We conducted walk throughs to understand how our bodies should be positioned throughout the various phases of the jump, and what we should do if any unforeseen circumstances arose. The instructor packed the main and backup parachutes while I watched and talked me through his preparations. Just before we boarded the plane, my instructor asked me, "Are you nervous?" I admitted that I was. He said "**Great!** Because if you weren't nervous, then I would be concerned because that meant you probably weren't paying attention."

The post mortem on the jump was that I had an amazing time! But I am 95% sure that was my first and last jump. While the sense of "flying" and being able to see the globe from such an altitude was fun, I realized that I didn't really relax and enjoy the experience until I landed safely and could confirm that I was still alive. After the jump, as we waited for our jump videos to be developed, another fully loaded plane went up. As everyone on the ground watched, the next set of jumpers leaped from the plane. We then gasped in disbelief as two of the jumpers became entangled and descended with two partially inflated chutes. One didn't survive, and the other ended up in intensive care. We later learned that these two jumpers were not associated with the school. They were both veterans with hundreds of jumps each, and they were merely hitching a ride up on the school's plane. For those two skydivers, it was just another mundane jump.

What is the lesson for investing?
There are always risks. And the greatest risks are those that are unseen and unpredictable in the form of an exogenous shock (e.g. an act of war or terrorism, a natural disaster, a pandemic). Downturns are inevitable and should be expected. But the prospect of such an event shouldn't scare us. It is part of the risk of investing. Those same risks make strong returns possible, especially if we are performing our due diligence and investing in strong companies. The most important lesson is that we are most at risk when we aren't paying attention, and when everyone is in agreement.

2028 E. Ben White Blvd, Suite 502, Austin, TX 78741
Phone: (737) 990-9003

Selected portfolio discussion:
The third quarter did not bring much relief for our portfolios. In our Long Only strategy, the September swoon pulled our portfolios into negative territory for the year. In our Long Short strategy, we were impacted by the same factors. Our short book successfully offset some of the declines. But because the portfolio allocation for the fund is slightly different from our Long Only strategy, both strategies ended the quarter with roughly the same results.

Our biggest detractors for the quarter:
Fair, Isaac Corp (FICO – down 18.84%) – The stock price for the predictive analytics software firm has declined off of very little news outside of an article in the Wall Street Journal highlighting the increasing competitive threats. We view much of this as known. Anytime a company dominates a market in a monopoly-like manner, it will naturally attract competitors as well as customers who will attempt to push back on pricing. However, their solutions are highly predictive within the subprime market and the company continues to identify new opportunities for their software solutions. FICO reported a solid Q3 in August beating earnings and revenue estimates. The report seemed to imply slowing revenue growth, specifically in their DMS and Applications revenue. We believe the market is missing the bigger picture. FICO is transitioning from a licensing model to a subscription model. These transitions typically lead to near term growth headwinds but longer-term profitability improvement and stickier customers. FICO's scores revenue continues to grow at a double-digit annual rate, and margins (Gross, Operating, and Net Income) are expanding which supports the premise that the company is maintaining their pricing power. We view this decline as a buying opportunity. Management seems to agree with our thinking as they announced a $500M stock repurchase program on August 18th.

Whole Earth Brands (FREE – down 20.14%) – The manufacturer of "better for you" sweeteners reported a solid Q2 in August. The company beat on earnings and revenue but reported softer margins within their Wholesome private label business. Of more concern, at the end of September, FREE announced the unexpected departure of their CFO, Andy Rusie. Typically, such an announcement could portend any number of problems within Whole Earth Brands. However, I spoke with the company shortly after the announcement to get additional color on the departure. The situation was very black and white. Mr. Rusie was presented with a unique business opportunity by a close personal friend. There were no internal disagreements or concerns about the future of FREE. Mr. Rusie is leaving the company in a very good position: the most recent acquisitions have been closed and fully integrated, and the company is now focused on the next phase of acquisitions and consolidation. It was an unfortunate development, but Whole Earth Brands is now in a position to potentially attract and hire an even more seasoned CFO to lead the company through the next phase of growth.

Our biggest contributors for the quarter:
Intelligent Systems (INS – up 27.9%) – The boutique credit card processing software company continued to execute to plan. In their most recent earnings report, INS revealed that their investments in the Middle East are generating benefits as they are now recognizing revenue from a new customer, the Al Ansari Exchange. Al Ansari was previously a customer of the now defunct Wirecard. They also announced a new partnership with Vervent, a San Diego based Lending-as-a-Service (LaaS) company to enhance credit card servicing solutions. INS' solutions will enable Vervent to provide more flexible lending offerings and launch new client card programs faster.

2028 E. Ben White Blvd, Suite 502, Austin, TX 78741
Phone: (737) 990-9003

INS continues to make prudent investments and the company is gaining momentum. As Covid moderates (or the world normalizes life with Covid), the company's Middle Eastern operations will become more productive.

MSCI (MSCI – up 14.36%) – We discussed this investment last quarter as well. In addition to a strong reported earnings quarter, MSCI also announced the acquisition of Real Capital Analytics (RCA), a commercial real estate and analytics provider. RCA aggregates transaction data to provide insights and analysis on market pricing and investment trends. Combined with offerings from their strategic partner Burgiss, the acquisition will allow MSCI to provide data and insights on commercial real estate, market activity, performance and risk. The acquisition will expand the suite of data products and analytic solutions MSCI can provide to its over 7,500 clients in 85 countries. In conjunction with the acquisition, MSCI raised $700M in a senior note offering to refinance their existing debt.

Exited positions:
We exited three positions over the course of the quarter. Two were primarily due to our strict risk management rules. We may revisit those companies in the not too distant future. However, with the third, I realized that I made an error in judgement and so I will discuss our decision.

We exited our position in **Viemed Healthcare (VMD)** in July after holding the stock for a little over a year. We acquired our shares at what I believed to be a post-pandemic discount. As the pandemic continued beyond our original estimates, the inability for Respiratory Technicians to visit doctors in hospitals, and patients in homes, proved to be a major headwind. Management was never able to get back to their pre-pandemic growth rates, and I did not believe it would happen soon. It is a reminder that, in a relationship business, even when your relationships are strong, there is no substitution for a face to face meeting, a handshake, or a hug to revalidate the relationship. And with a year lost, VMD was losing significant time ahead of a possible 2023 new rate announcement under the Competitive Bidding Program which could significantly impact their non-invasive ventilator business.

Another concern was their handling of executive compensation. From the beginning, I was frustrated by management's insistence on adding back options grants to their reported Adjusted EBITDA numbers. Option grants are a real expense and should be treated as such, and so we made adjustments to our own internal numbers. Furthermore, I observed that their options compensation for executives was much higher than should be for such a small company. Management continued to grant options despite the company's underperformance during the pandemic. I realized that as the stock continued to decline and those options lost value, management would be forced to issue even more options (diluting existing shareholders) or risk losing executives seeking greener pastures.

There are additional bullets to my exit decision, but I will leave this as it is. I am happy to put that one behind us.

Performance for our strategies this year continues to be a challenge, but these periods will happen. I remain excited about the names in our portfolio and the list of opportunities that I have

2028 E. Ben White Blvd, Suite 502, Austin, TX 78741
Phone: (737) 990-9003

on my desk for continued research. Our investment process continues to improve as I see more and learn valuable lessons. I am confident that our process will deliver the results we expect.

"Success is not final, failure is not fatal. It is the courage to continue that counts."
- Winston Churchill

Business Updates:
Since Richie Capital Group was founded, the vision and goal has been to become a multi-product, institutional investment firm. I have spent the last few years working diligently towards that goal as we grew organically with our early clients. This year, I made the decision to pull the future forward. We have added some limited partners to the organization (and expect to bring on a few more) and we are using these new resources to build scale. We are in the process of identifying new office space, and we are engaging in negotiations to bring on outsourced compliance, Back and Middle Office, and IT. I expect to have most of this completed by the end of the year. Finally, I am happy to announce that we are hiring! We are looking to bring on a Research Analyst and a Director of Operations. The ideal candidates will be smart, driven, intellectually curious and have a passion for the investment industry. I expect to have one of these positions filled by the end of the year and the second by the end of Q1. If you know of qualified candidates who fit this description, please direct them to our careers page.

We appreciate your trust in our firm with your valuable assets.

Khadir Richie
Principal
Richie Capital Group
www.richiecapital.com
"It is a privilege to manage money for others."