Mike Rusinas, Portfolio Manager mrusinas@brookhurstcapital.com

Dear Partners,

Welcome to our first annual report. For the year our fund rose 23.3% vs. 32.4% for the S&P 500.

We started Brookhurst Capital in June 2013. At Brookhurst, our goals as investors are to provide solid absolute returns over a long-term time horizon with an emphasis on the preservation of capital and growing assets at a reasonable rate of return. We think it would be good to share with you our investment philosophy, objectives and process in making investment decisions.

The investment principles practiced by Brookhurst are firmly rooted in the work of the late Benjamin Graham, Professor of Investments at Columbia Business School. I'm sure many of you know his most famous pupil, Warren Buffett. Ben was the author of Security Analysis and The Intelligent Investor. In the words of Graham: "An investment operation is one which, upon thorough analysis, promises safety of principle and an adequate return. Operations not meeting these requirements are speculative". Graham believed that there were two values to a business: the price quoted, or day to day in the stock market of publicly traded companies and the "intrinsic value", or in other words the price that the company could be sold in liquidation. We seek to appraise this intrinsic value and then buy the stock of a company at a substantial discount to the intrinsic value, generally 40-60%. The discount provides additional protection or as Graham would say, a "margin of safety". One should rightfully ask how a business can be selling at such a discount to intrinsic value. Isn't the market efficient? For the most part the stock market is a wonderfully efficient machine but it is made up of individuals who use their judgment to buy and sell stocks. Many times they do not make rational decisions or as we recently saw in the crash of 2008 these decisions are made for them. Brookhurst's task as investment managers is to take advantage of these fluctuations in stock prices by purchasing securities when these mispricings occur and selling securities when their market price approaches intrinsic value.

While we use diversification to minimize our errors in analysis or factors outside our control, both of which could adversely affect intrinsic values, our portfolio tends to be concentrated. We believe diversification is a limited tool that takes away from good ideas. We would rather spend our time and effort partnering with a good company and understanding them well, than to know generally about a large number of companies. Brookhurst is not managed by one individual—we are a team. Our investment process begins with an investment idea, general research is done on the idea and then it is presented to the managing partners who all will then take a look at the idea and come up with their independent evaluation. After the evaluation we rank the idea and decide if it meets our underwriting criteria for a purchase.

Most of our days consist of reading and researching investment ideas. Often times when we talk to people, they think that because we work in investments that we are busy huddled over computer terminals watching the market, buying and selling stocks like stock traders on TV. However, when we tell them that most of our day is spent reading and pouring through documents they look at us quizzically. Reading is the essence of what we do. We read to broaden our exposure to new topics, patterns and make our thoughts more efficient in general. Additionally, we read for enjoyment because we are perpetual students and always enjoy learning! Charlie Munger, Warren Buffettt's business partner once said, "In my whole life, I have known no wise people who didn't read all the time—none, zero". Reading exposes us to new thoughts and ideas like Nassim Taleb, "The Black Swan" and Daniel Kahneman, "Thinking Fast and Slow" and old thoughts and ideas from the masters like Cicero, Marcus Aurelius and Plutarch. Cicero wrote over 2,000 years ago, "Our country, indeed, while it was astray in its government; while it tore itself to pieces by parties and quarrels and discord; while there was no peace in the Forum, no agreement in the Senate, no moderation on the judgment-seat, no reverence for letters, no control among the magistrates, boasted, no doubt, a stronger eloquence". Perhaps if our elected officials would spend 21 hours reading Cicero instead of grand-standing, our government would not have gone through the wrenching mess of October 2013. One benefit of all this reading is that it minimizing our trading activity. In fact, we seek to minimize our trading activity because it creates frictional costs that lower our long-term returns and additionally we think less is more. If we can get one good idea a year we are happy. There is only so much a person can do and owning a large number of different stocks just for the sake of diversification is nonsense.

As long-term investors we do not believe our value investing approach can be fairly tested on a quarter-by-quarter basis, but must be measured in terms of total return over a minimum of three to five years and beyond. Within this time period, intrinsic values can be expected to reflect themselves in stock prices. We understand that success in the long term often entails periods of underperformance in the short term and we don't mind these lumpy results. In fact, they create opportunities for us to deploy capital. We don't worry too much about our day to day returns because if we partner with the right companies at a reasonable price we believe we can weather the day-to-day and year-to-year fluctuations. Like us, many others investors have pursued this approach to investing over the years and it has served them well. Value investing has been through many stock market cycles and adhering to this philosophy has protected assets for our families and many others. .

There is a Chinese proverb that goes: "May you live in interesting times" .Well last year was an interesting year I'm sure you will agree. With the shenanigans of our elected officials, chemical weapons in Syria, and multiple terrorist events around the world, the world seemed to be falling apart every month according to the popular news. For me it was interesting in another way. I had the opportunity to serve our country and represent the Navy in the Democratic Republic of the Congo, working with the Dept of State, UN, Office of Security Corporation and the US Embassy. I traveled all across the Congo and it opened my eyes to many things, much like a good book. The Congo is listed as 186 out of 187 on the World development index. The Congo is one of the few countries in the world that went backwards in terms of living standards. What is fascinating about this is that once it was a booming and prospers state and now squatters live in the ruins of a former civilization. A friend of mine called it a, "living Pompeii", it's simply tragic! There are many questions that come to mind and many people and countries to blame for their ruin including themselves, but what's more important I feel is to realize that this could be us. It does not take much for a country/civilization to descend down these dark paths and on the 100 year anniversary of the beginning of the, "War to end all Wars", WW1. We think it's wise to reflect upon these circumstances and use the lessons from the past so we don't repeat them in the future. One of my favorite authors, Nassim Taleb describes this in his book, "The Black Swan" as an unexpected event that causes other unknown events to happen. One day a Black Swan came along and turned their world inside out. The Congo could happen anywhere and what we know will no longer be what we know.

A good friend of mine articulated this point well. He is a JAG in the Navy and a Lawyer in civilian life who works for the US Government. One of his jobs is to give opinions to the White House on the legality of targets in the war on terrorism. His undergraduate degree is in Philosophy and I have an immense amount of respect for him. So our conversation turned to the Congo, civilizations, and their rise and fall. I asked him if he ever thought the U.S. would fail and he said "Yes" which took me by surprise! He went on to say if you study history and philosophy all civilizations fail at some point. There are two lessons here. First, he made me see things differently. Second, I had to reevaluate my assumptions.

It's easy to go through our day to day life with our eyes shut and not really think about things. The water will run, the electricity will operate, our streets will be clean, but this is not what happened in the Congo. The Congo could happen anywhere and has and what we know will no longer be what we know, and it will come faster than one could possible imagine. Here at Brookhurst our eyes are wide open and we think about the past, present and future in order to preserve our investments and our way of life. We do not worry too much about our day to day returns but invest for the long term to weather the short term fluctuations and all the while growing our assets.

Entering 2014, we believe our fund is strongly positioned to weather the vagaries of the economy and the stock market and provide solid absolute returns over the long-term horizon. Our primary concerns remain the preservation of capital and growing our assets at a reasonable rate of return.

As always, thank you for your support.

Sincerely yours,

Mike Rusinas

Mike Rusinas is a portfolio manager and principal of Brookhurst Capital, LLC. Mr. Rusinas' thoughts in this essay are solely his own and there can be no assurance with regard to future market movements.

Set forth below are two examples of how we apply these investment principles in our stock selection and a general idea of what we want to own throughout the fund. (Appendix A)

Brookhurst Fund Monthly Performance

2013	Brookhurst Capital	S&P 500
January	0.5%	5.2%
February	-0.7%	1.4%
March	5.6%	3.8%
April	10.4%	1.9%
May	-1.3%	2.3%
June	1.3%	-1.3%
July	2.5%	5.1%
August	-5.6%	-2.9%
September	3.2%	3.1%
October	5.6%	4.6%
November	0.6%	3.0%
December	1.2%	2.5%
YTD Total	23.3%	32.4%

Portfolio Allocation

	TOP 10 HOLDINGS	
1	GGP	21.5%
2	AIGWS	14.7%
3	HHC	15.4%
4	FNMA	9.2%
5	BAC	7.8%
6	TICC	6.0%
7	HKNI	6.1%
8	KCAP	4.6%
9	MCGC	4.0%
10	LUK	2.5%

These are unaudited returns for Brookhurst Capital.

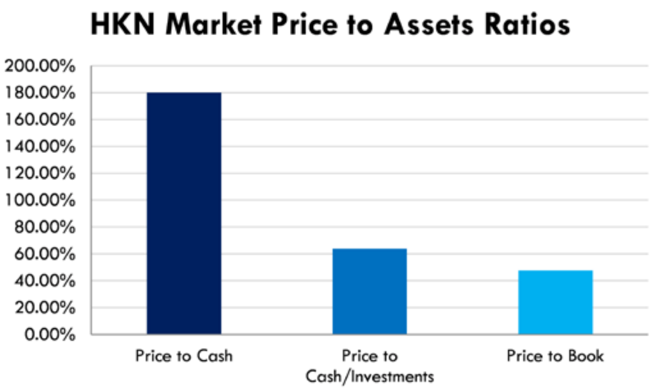
Past performance is not indicative of future results.

Please refer to the disclosure section at the end of this letter.

APPENDIX A

Q2 2013 Earnings Highlights and Valuation Metrics

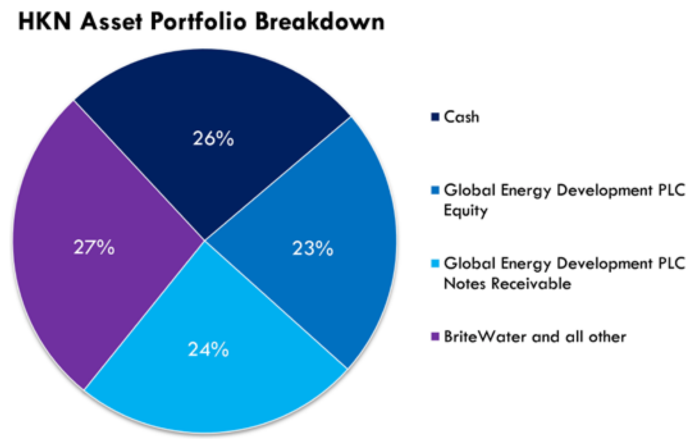
HKN, Inc. (HKNI) resumed repurchasing its outstanding common shares in Q1 2013. We believe that there is potential unrealized value in the shares, as HKN's shares are trading at a 50% discount to book. We will also be reviewing our coverage of its 34% owned equity method affiliate Global Energy Development PLC (GED LN Equity).



Source: Bloomberg LP

Because the company sold off its oil and gas properties and has rearranged its corporate strategy, its reported financial performance is not necessarily comparable to many companies. The corporate strategy that HKN is pursuing includes the following actions:

- Identifying, developing and marketing applications for the emulsion-breaking technology developed by its BriteWater International subsidiary.
- Pursuing opportunities to invest in or acquire undervalued assets or companies in the energy industry which it believes present significant near-term growth potential. One such example was the acquisition of Gerrity Oil, LLC from Robert W. Gerrity in order to gain exposure to the Bakken and Niobrara oil shale basins.
- Proving management expertise and/or additional capital for its portfolio assets to enhance the value of the assets and accelerate growth.



Source: HKN's Q3 2012 10-Q

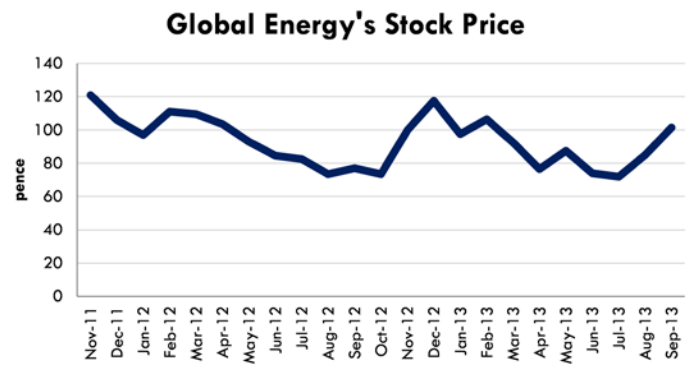
HKN Bakken Inc.: In July 2012, HKN contributed $4 million to the joint venture, Gerrity Oil, LLC ("Gerrity Oil"), in return for the receipt of a 50% ownership interest in the newly-formed entity. Bob Gerrity contributed oil and gas assets in the Niobrara and Baaken Basins in return for the other 50% interest in Gerrity Oil. HKN is trying to take advantage of shale oil plays and bought Bob Gerrity's 50% stake in Gerrity Oil in order to form HKN Bakken. The company generated $266K in revenues and $155K in operating income from this business unit in Q2 2013.

HKN (Corporate and Administrative): HKN's corporate and administrative expenses were $566K in Q2 2013, versus $731K in Q2 2012 due to cost saving measures at its corporate offices. The company also repurchased ~11.6K shares of HKN's stock during the period and spent $1.06M to do so.

BriteWater International: BWI reduced its operating loss from $505K in Q2 2012 to $382K in Q2 2013 due to increased capitalization of personnel and other general and administrative costs at BWI as HKN accelerated its efforts to construct a plant to commercialize the BWI technology during 2013. We anticipate that HKN's selling, general and administrative expenses may increase in future periods as it dedicate additional resources to the marketing efforts of BWI and new acquisitions. CapEx increased from $305K in Q2 2012 to $837K in Q2 2013.

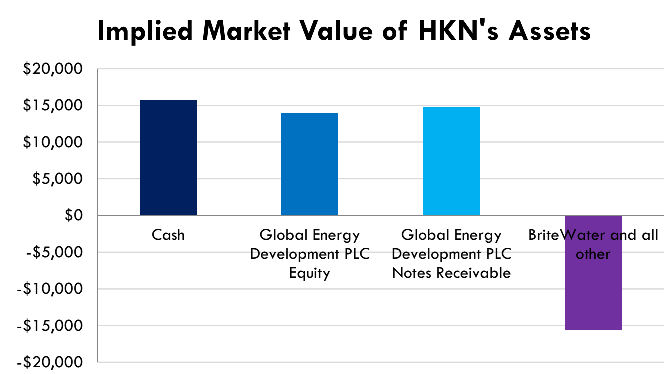
BWI and its subsidiary, Arctic Star Alaska, Inc. ("Arctic Star"), have entered into contracts which grant the right to process and dispose of certain oilfield emulsion waste materials on the Alaskan North Slope. Arctic Star is currently planning the design and construction of a processing plant on the Alaskan North Slope which will allow for the recovery of oil from emulsion waste materials which are currently lost as a result of the current disposal process. BWI is also currently in the planning and design phase for a mobile processing plant which will utilize the patented technology, and it is also seeking to secure contracts for the placement of its existing weathered lagoon plant internationally.

Global Energy Development: HKN owns 34% of GED's shares. GED's share price had declined from £1.06 as of December 31st, 2011 to £0.74 as of June 30th 2013. GED bottomed out at 65.5 pence in April 2013 but is now 101.5 pence. We analyzed and evaluated GED's H1 2012 results last year and we can see that GED has a similar dynamic as HKN. Both companies are undervalued relative to book value, the Quasha family owns about 60% of both companies (34% through HKN and 26% directly) and both companies are managed in the I. Mallset manner of mediocrity. HKN purchased an additional 100,000 shares of GED for $175,000 in 2012 and this transaction increased its ownership share by 4bp. HKN owns 12.35M shares of GED which was worth $13.9M as of Q2 2013. HKN has also lent GED $14.7M in long-term receivables and collected $588K in interest and $1.5M in loan repayment proceeds during the quarter.



Source: Bloomberg LP

We believe that part of the reason why investors are undervaluing HKN is because they are attributing a negative value to the BriteWater and HKN Bakken operations. We found that HKN's equity interest in GED is $13.9M and its debt is worth $14.7M. Add in $15.7M in cash and the sum of these three parts is worth $44.3M. Since HKN's stock is $70.50/share and representing a $28.7M market cap as of September 9th, investors are implicitly attributing a negative $15.6M value to BriteWater and all other assets. We see that the book value for BriteWater and other assets is $14.9M and that is a significant discount to book value.



Source: Morningstar Direct

In conclusion, we believe that HKN is undervalued relative to its assets. However, the reason why it is trading at a discount is because there is a controlling shareholder who owns the majority of the company's stock and this controlling shareholder has a record of mismanaging the company. While this makes unlocking the value of the company's underlying fundamental value something that won't happen overnight, we expect the market value of the company to converge with the fundamental value of its assets. The company's cash holdings represent two-third of the company's market cap and the company has a significant capital stake in an emerging growth global oil and gas firm. Also the company has BriteWater International which owns patented emulsion breaking technology. However, we believe it will take more time for HKN to commercialize its BriteWater International Emulsions operations.

Source: Morningstar Direct

Are Fannie Mae and Freddie Mac Dead?

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Hardly, according to Bruce Berkowitz of Fairholme Capital and Bill Ackman of Pershing Square. At the end of October 2013, after months of analysis, Brookhurst Capital put 7% of its total capital in FNMA. Shortly after, Berkowitz announced an offer to recapitalize Fannie and Freddie and Ackman announced that Pershing had acquired a near 10 % stake in Fannie and Freddie common shares not owned by the government. Although we entered our position before the news, we are comfortable owning the common shares, especially with great business partners like Berkowitz and Ackman involved.

Background

On July 30, 2008, President Bush signed the Housing and Economic Recovery Act (HERA) into law, creating the Federal Housing Finance Agency (FHFA) to oversee and regulate Fannie Mae, Freddie Mac, and the 12 Federal Home Loan Banks. The law also gave the Treasury the temporary authority to purchase securities from Fannie Mae under section 1117, with this authority being terminated on December 31, 2009, per paragraph 4 (Source).

On September 7, 2008, the FHFA placed Fannie and Freddie into conservatorship under the powers of HERA section 1145, pursuant to the following paragraphs detailed in part D, Powers as Conservator:

"The Agency may, as conservator, take such action as may be —
(i) necessary to put the regulated entity in a sound and solvent condition; and
(ii) appropriate to carry on the business of the regulated entity and preserve and conserve the assets and property of the regulated entity."
Source

Shortly thereafter, the Treasury entered into a preferred stock agreement with Fannie and Freddie that would provide them with up to $200 Billion in additional liquidity, subject to a ten percent dividend on each dollar drawn down from that line of liquidity. The agreement also included warrants for the Treasury to purchase 79.9% of the common stock for a "nominal fee" of roughly $10,000.

Between 2008 and 2012, the economy and housing markets improved dramatically. Due to this recovery, not only did Fannie and Freddie return to profitability, it became clear that they had overstated loan loss reserves and write downs on deferred tax assets to the tune of about $100 Billion dollars. As of the time of this writing, Fannie has been profitable for 7 consecutive quarters, and under the current trajectory would have paid off the Treasury's liquidation preference by the end of 2014.

In 2012 however, the Treasury altered the terms of the previous agreement in what is called the "Third Amendment". Under this amendment, all income from Fannie and Freddie is given to the Treasury, and the liquidation preference cannot be paid back (Source). This in effect wipes out the shareholders, leading to the current state of the equity in Fannie Mae.

Thesis

On July 7, 2013, Perry Capital filed a lawsuit against the FHFA and the Treasury alleging that the two parties did not have the authority to institute the "net worth sweep" detailed in the Third Amendment (Source). As a result, Perry Capital (on behalf of shareholders that he is representing) is seeking an enjoinder of the Third Amendment, which would once again allow the payment of dividends on the junior preferred shares, and would reinstate the claim of the common stock to the company's profits. Given the proposed valuation (see the valuation and risk sections for details), after taking into account the Treasury's ~80% stake, this could lead to a price per share from $7.50 to $10.00+

Even if the case is not decided in Perry's favor, however, there is still downside protection in the form of other lawsuits and potential outcomes. In defending the government's actions, the most common argument is that the Third Amendment constitutes a de facto bankruptcy restructuring that the conservator had the ability to execute due to his duty to preserve the interests of the senior creditors. In this scenario however, bankruptcy laws would apply, and the shareholders would be due the residual proceeds of the liquidation value at the time of the "bankruptcy" which could provide a potential floor for the shares. Due to these factors, Fannie Mae appears to be an attractive investment opportunity.

Valuation

In 2013, President Obama and the Office of Management and Budget released their "Analytical Perspectives: Budget of the U.S. Government" detailing the government budget from 2013-2023 (source). In the document, they estimate that Fannie and Freddie will have paid the treasury roughly $140 billion in excess of the liquidation preference after accounting for the excess loan loss reserves and the write up of the deferred tax assets. Based on current profitability numbers, if you estimate that 60% of that will be attributed to Fannie Mae, that's $90 billion due to shareholders, the present value of which, using conservative estimates (a 0% terminal growth rate and a 15% discount rate), would be nearly $10.00 a share.

As a sanity check, Adam Badowi of Washington University also said during the NYU GSE panel that he believed Fannie to be worth roughly $70 billion as of August 2012 (Source).

However, there are too many complicated factors when it comes to determining the value of Fannie Mae. We view it as an asymmetrical bet and defer to Pershing Square's determination that "The issuer's common stock is undervalued and is an attractive investment."

Catalysts

There are 3 major categories of catalysts that will affect FNMA:

1) Legal

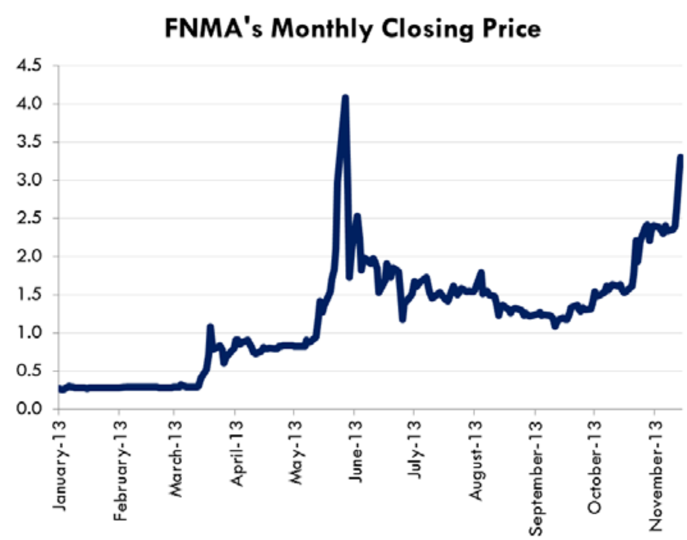
The decisions of the lawsuits filed, especially Perry Capital, will have a large impact on the price of all shares, preferred and common.

2) Political

The passage of the Corker-Warner or Jeb Hensarling bills could be significant negative catalysts if passed with provisions that lead to the wind down of Fannie and Freddie.

3) Financial

The continued reporting of positive earnings will lead to the implied paying down of the Treasury's liquidation preference, and restore some confidence to investors and proponents of the two companies.



Risks

1) If legislation is passed that would either wind down Fannie and Freddie, remove the government guarantee, or otherwise impose restrictions on the companies, this could significantly impact future profitability. Professor Badowi's $70 billion valuation is predicated on these things not happening, and would have to be adjusted downward if significant changes were made.

2) If the court cases aren't decided in favor of the shareholders, the shares aren't worth anything more than their residual claims in liquidation, which would significantly impair their value.

3) If the courts decide that the shareholders should be entitled to the liquidation value of Fannie from 2008 instead of 2012, then the shares could be worth $0.00.

4) Macroeconomic factors could negatively affect the housing market, leading to another increase in loan loss reserves, impairing profitability.

5) The jumbo loan market has already shown the private sector's ability to securitize mortgages, so private sector competition could take share from Fannie, reducing future potential profitability.

6) Public perception of the lawsuits is that a bunch of hedge funds are suing the government to take money from tax payers to enrich themselves. This makes the political climate for deciding in favor of the shareholders very unfavorable.

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