Dear Partner,

After a strong year end finish, global equity markets plateaued for the first six months and slowly trickled upwards. Slowing growth in emerging markets and increasing tension in a number of regions slowed the equity market momentum from last year. Brookhurst Capital responded well to this more unsettled environment with a solid +16.40% six month return beating the Russell 2000 (+3.2%) and S&P 500 (+7.1%) benchmark indices by a comfortable margin of 13.2% and 9.3% for the first half of the year.

June 30, 2014 marks the official one year anniversary of Brookhurst Capital. Clearly, it's been a good time to be invested. Any time we see our net worth significantly increase by a large margin over the stock indices we are delighted. And while it is easy to think we earned our paycheck, it's good to keep in mind that it is the bad times when we really earn our keep. We like to remind ourselves and our partners that we are not oracles and thus, cannot and will not, claim that we could foresee this year's rise in the stock market. We are, however, happy we chose undervalued companies that the market began to recognize and appreciate in value. We cannot say our portfolio is as cheap as it was a year ago but we still believe we hold deeply undervalued companies with strong balance sheets that will participate in the long-term growth of America and the world.

It's truly hard to grasp the growth the world has experienced. For example, eighty years ago in 1934 the world population was a little over 2 billion. Today it is over 7 billion. In an average life span the world population more than tripled! In today's environment of hypertensive money managers who only think about next quarter's performance numbers we at Brookhurst can take a longer term view. It is a unique and competitive advantage. In 1934 John Maynard Keynes wrote to Francis Scott, the Provincial Insurance chairman of which he managed money, "As time goes on, I get more and more convinced that the right method in investment is to put fairly large sums into enterprises which one thinks one knows something about and in the management of which one thoroughly believes. It is a mistake to think that one limits one's risk by spreading too much between enterprises about which one knows little and has no reason for special confidence. . . ." JMK realized that the best method of managing money was to concentrate in quality companies over long periods of time. We feel this way as well.

Fortunately, we are in an enviable position of managing our own money alongside our partners and are not constrained by quarterly, monthly, or daily metrics. As of June 30, 2014, Brookhurst partners have approximately 95% of their investible assets invested in the Fund. Our goals are to see our net worth grow in a realistic manner above the popular indices, over long periods of time, and in a way that minimizes risk. We have accomplished this in the past and we are confident that we can continue doing so in the future. (No guarantees made or implied.) We think it's important for our partners to know that we eat our own cooking and if the fund loses money, it's our money as well.

We are lucky to have an intern, Trevor Thompson, join the team during the year. Trevor is currently at UMass Lowell and will finish his degree in Economics. He brings valuable insights to the team and we learn as much from him as he learns from us. Trevor was responsible for Brookhurst taking positions in two new companies that contributed to the fund's performance. His hard work and dedication to value investing principals is admired and appreciated. Below is an example of his research and he's in the middle of launching his own investment strategy, Eclipse. Obviously, he has a bright future ahead of him!

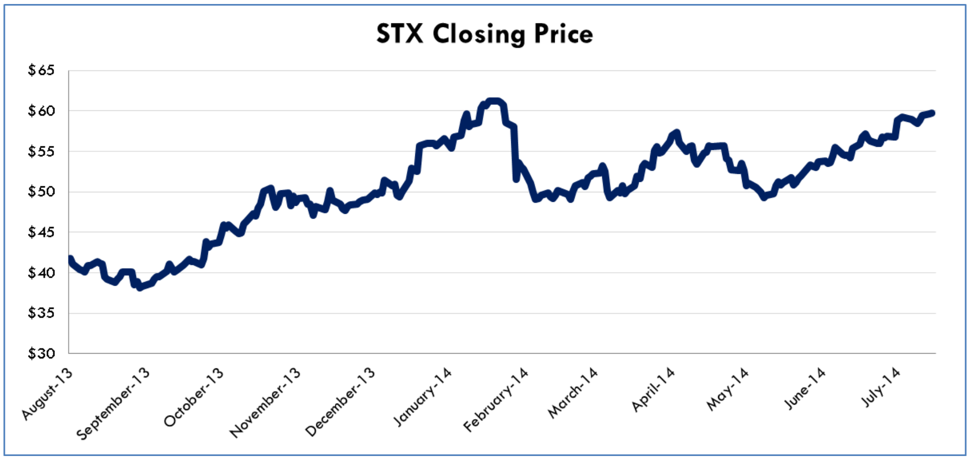
We've attached our research piece on Seagate Technologies (STX), one of our newest positions this year. As always, thank you for your support.

Sincerely,

Mike Rusinas, Managing Partner

mrusinas@brookhurstcapital.com

P/E	$11.83
Forward P/E	$9.00
Consensus Target	$59.00
52 Week Range	$36.5-$62.2
Price/Sales	1.26
Price/Book	6.61
Quick Ratio	2.00
Current Ratio	2.40
Gross Margin	27.90%
Operating Margin	13.20%
Div Yield	3.22%
Payout Ratio	34.80%



Reasons to Own

1. STX is an underappreciated company in a changing industry. Some analysts believe that NAND is going to destroy the space and others believe that declining PC sales has to mean declining revenue. Both of these assumptions are wrong, so we can capture that priced in risk.

2. There is an absolutely enormous growth segment for hard drive sales in the cloud infrastructure market. Divisions like Amazon Web Services and Google Drive are building out datacenters with thousands of HDD, and that market is still only in its infancy. This growth is not currently priced in.

3. STX is well positioned for the cloud infrastructure market. They've pioneered an open source platform called Kinetic that allows for HDD as a server infrastructure, and WDC hasn't announced a comparable offering.

4. We're generating new data at an insane rate and that data is all going to need to be stored. 4K movies, 20+ MP cameras, big data for enterprise analytics… all these things are massive data hogs so the market for storage clearly isn't going anywhere, despite the very low multiples assigned to the company.

Valuation

- Currently trading at an ex-cash P/E of ~10 compared to WDC (the only other major HDD manufacturer) at ~16.4, and the Philadelphia Semiconductor Index (SOXX) average PE of 23 (ex-cash PE estimated at 21), and the S&P trading at ~19 (ex-cash estimated at 17).

- Discount of the HDD space compared to computer hardware in general is due to the lack of appreciation for the potential growth, and the tied-to-PCs perception

- The discount of STX compared to WDC is likely due to the fact that STX has much higher financial leverage (P/B of 7 vs. a P/B of 3.5 for WDC).

- A reverse DCF shows that (assuming an 8% discount rate) the market is currently pricing STX for a -1% EPS growth rate over the next 10 years.

- With constrained supply due to low investment in manufacturing that will keep margins high, content generation growth that will ensure continued revenue increases, and a transition from OEM sales to higher profit enterprise sales, the apparent case to be made is that growth will be positive, possibly even strongly so. With that in mind, the same DCF even at just a 3% growth rate implies an intrinsic value of ~$70 a share (40% upside). Using a still conservative 6% growth rate implies an intrinsic value of ~$80 a share (60% upside), and an aggressive but certainly achievable growth rate of 9% gives us a value of ~$100 (100% upside).

Management

- STX has excellent management. They've consistently executed as planned, managed well through the Thai crisis, and have been very shareholder friendly from a capital allocation standpoint. Also, Steve Luczo, the CEO, was on the board of directors at Microsoft under Balmer.

Risks

1. NAND is faster and requires less power, so if there are cost breakthroughs in that technology they could take share more quickly than we expect.

1. Mitigation: Seagate is currently working closely with Samsung to develop SSD technology, and is exploring opportunities for both internal and organic expansion in the technology.

2. If PC sales continue to decline more quickly than that cloud market picks up, it's possible that we could overall revenue declines in the medium term.

3. Mitigation: We're buying in at a pretty decent discount. The company is currently priced for slight declines in revenues, and the big decline in price in January took most of the optimism out of the valuation.

Catalysts

1. STX has had a flurry of announcements about their Kinetic project this year and it is going to be launching the Kinetic enabled drives in mid-2014. This could goose sales in the next two Qs, and change the story back to a growth/cloud story from a declining PC sales story.

2. With the acquisition of Xyratex, Seagate is moving into the storage systems business where they should be able to significantly reduce costs for the overall racks. Falling rack priecs will lead to further acceleration in cloud adoption, and therefore increasing revenue for Seagate without hurting margins.

3. STX is continuing to return cash to shareholders through buybacks, so if sales pick up from any segment then we'll see very nice EPS prints and YoY comps.

4. PC sales appear to have bottomed out, and the economy is picking up. If PC sales start improving instead of declining at 5-12%, that's also great for the numbers.

Thesis Overview

Data generation is exploding and there are more reasons to store it, such as:

- More value in business analytics
- More usefulness for technology consumers (e.g. storing photos and video)
- More uses as automation picks up (e.g. robots requiring real-time vision)
- Total cost of storage is coming down as open source hardware initiatives take the margin out of racks. $4 a gig for the rack but HDDs are only $0.06 a gig.

Therefore, data generation is going to outpace capacity storage improvements. SMR, helium, and HAMR will lead to around 20 – 25% growth on the high end (WDC predicts more like 15%) (Seagate, 2013). Seagate predicts 40% per year growth in demand, others like IDC (sponsored by EMC) predict it will be higher (IDC, 2011)

This means that either margins will go up as supply is constrained or revenue will increase as more production capacity is brought online to meet demand. This is an inevitability as long as two things are confirmed: that data generation will in fact outpace storage capacity improvements and that HDDs will be the primary storage medium. We go into those two questions in detail below, and we are very confident in both assumptions. (Seagate, 2014)

A DCF using an 8% discount rate, 10 years of 4% revenue growth at 12% net margins using numbers from Seagate's short term estimates (Seagate, 2013), and 10 years of 3% terminal growth implies a present value of roughly $65 a share.

Using a DCF that accounts for Seagate's estimates of storage demand through 2020 implies a present value of roughly $125 a share.

The recent leveling has taken most of the optimism out of the stock. A reverse DCF with the above assumptions estimates only a 2% EPS growth rate over the next ten years. When combined with the high potential upside, the company is clearly a low-risk high-reward investment.

The evidence for an explosion in data generation

There are many different ways that data is becoming much more valuable as storage costs per gigabyte fall. These include:

- Video surveillance
- Big data analytics
    - Real time health monitoring at hospitals
    - Transaction mining
    - Clickstream analytics
- Social media
- Game consoles
- Network attached storage at the client/retail level
- HDDs in tablets
- Home media centers
- At home health tracking (smartwatches, smart scales, etc.)
- Data enabled devices from TVs to cars to appliances
- High resolution video and pictures
- Heads up display (e.g. Google glass)

These things all mean that the explosion in data demand that we've seen in the last 5 years, a roughly 50% increase per year (Seagate, 2013), has a clear reason to continue. Research done by IDC supports this as well. The firm expects total data generation to exceed 40 zettabytes by 2020, a 10-fold increase from current levels (IDC, 2011).

In light of all this, the biggest companies in tech are now repositioning themselves to be leaders in the management of data, especially in relation to the cloud. Clearly this isn't just a company talking their book, but a genuine evolution of the technology landscape.

- Microsoft is transitioning itself into a cloud platform in all areas. With the release of Office 365, the integration between the Xbox, Windows Phone, Windows OS, and the Surface (which is done on the backbone of Microsoft's OneDrive cloud storage architecture), and the further optimization of Windows Server and Tools for cloud deployment, it's clear that the company has bought into the importance of the cloud, and more specifically the importance of making user data available across devices by ramping the company's ability to store that data in the cloud.

- Amazon is currently 5 times larger than every other cloud services company combined, and they continue to invest heavily in R&D. They have multiple service offerings devoted specifically to providing storage, and they've cut the prices of those services more than 40 times in the last few years, which will continue to drive adoption in the market (Amazon, 2013).

- IBM is moving more and more into providing storage racks, especially "hybrid racks", for cloud scale customers (Morgan, 2012). This is especially significant because these architectures take significant investment, and therefore reflect IBMs conviction in the future of storage.

Why flash won't replace disk drives

The fab cost argument:

Flash fabs are extremely expensive and take 2+ years to get up and running. The industry leading fabs cost roughly $10 billion to set up, and can only produce roughly 10 exabytes of solid state storage. Even if technology improvements can lead to a 30% per year increase in production yields, by 2020 it would still cost something like $100 billion in fab investments to meet even a tenth of total storage demand (Forbes, 2012), and that's without considering lead times or the very significant challenges around ramping yields for the new types of flash. All in all it is incredibly unlikely that flash even could take over when looking at a production and capex standpoint.

The cost argument:

- A recent study done by Cloudera (an enterprise data company) showed that SSDs are only 2.5x better on cost/performance in contrast to being 50x worse in cost/capacity. The performance gains are clearly far smaller than the capacity losses dollar for dollar (Cloudera, 2014). Furthermore, Seagate forecasts that HDDs will continue to be 6-10 times more cost efficient for storage through 2020 (Seagate, 2014).

- "No matter what portion of production capacity a megafab might devote to flash for SSDs, the return on investment would be difficult to justify given the relatively small available market for laptop, desktop and enterprise SSDs. Any additional capacity would be better justified to serve the market for smartphones, tablets and other consumer products for one chief reason: flash makers can maintain much higher yields and lower prices for consumer-grade flash because its performance and reliability specifications are much less stringent than the requirements for enterprise, laptop or desktop devices." (Seagate, 2012)

- SSDs are often lauded for drawing less power. In production though, an HDD only draws 5 watts per hour while under full load (Tom's Hardware, 2013). At the US national average price of $0.12 per thousand watts an hour, the total yearly additional cost per drive is only ~$5.00, or somewhere around 1-2% additional cost per HDD, which means that HDDs are still ~800% cheaper per gigabyte.

The performance argument:

It is widely argued that flash is going to take over because the performance is just so superior. This line of reasoning is flawed in a number of ways.

- IBM research has shown that when paired with a small amount of flash in combination with an HDD in a "hybrid" configuration, they perform up to 80% as well as straight flash.

- "Performance" is usually measured in IOPS (Input/output operations per second). This measure is based on the time it takes to move 512 bytes (only 1/10,000th of, for instance, an average song) around a storage device. Flash is far better in this metric, but in the real world there are many applications (blob storage for instance) that handle much larger chunks. In reality what matters is throughput, wherein the performance difference isn't nearly as stark. (Calypso Systems, 2013)

- When thinking about the amount of data that's going to be stored, there is no need for the majority of it to be stored on a drive with ultra-high performance. Most of the time the marginal benefit of additional performance is much smaller than the marginal benefit of lower cost, and therefore either an HDD or SSHD are the obvious choice.

All in all, it is clear that hard drives will continue to dominate the capacity storage industry, even if SSDs take over the performance category.

Comparison to Western Digital

Western digital is currently trading at a large P/E premium to Seagate, but this is due to certain one-time charges. After accounting for those, and for the amount of cash, Western Digital trades roughly in line with Seagate from a valuation perspective.

Technology differences:

- Western digital currently has a helium filled drive that allows for 25% greater capacity.

- Western Digital has a larger presence in the enterprise SSD market.

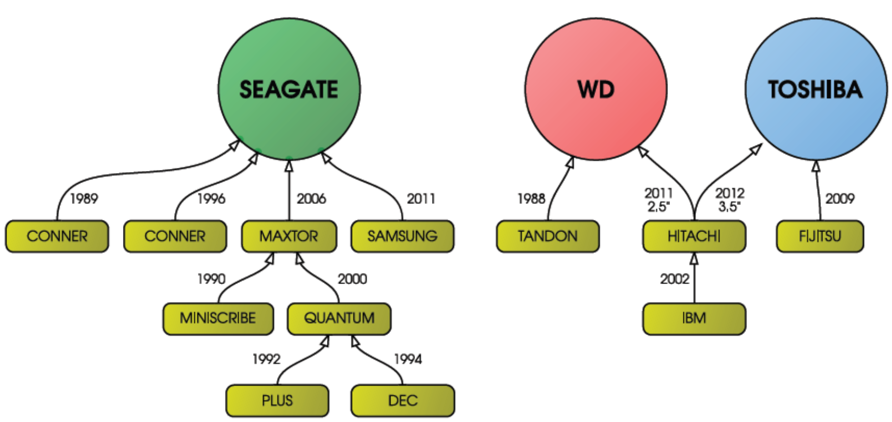
- Seagate is leading the industry with their new Kinetic platform that will allow for Ethernet enabled drives.

- Seagate is farther along with shingled magnetic recording (SMR)

Major Holders

Filer	Shares Held	Mkt Value	% of Port
Clearbridge Investments, LLC	20,109,079	$ 1,129,326,000	1.41%
Alken Asset Management LLP	11,817,562	$ 663,674,000	27.49%
Iridian Asset Management,	5,159,880	$ 289,779,000	3.43%
Oshaughnessy Asset Management, LLC	3,093,829	$ 173,487,000	3.64%
Disciplined Growth Investors Inc	2,619,366	$ 147,104,000	3.83%

Consolidation Chart



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