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January 16, 2015

"The two most powerful warriors are patience and time." –Leo Tolstoy

Dear Partners,

Brookhurst Capital Management finished the end of 2014 up +13.3% versus 1.4% for the average equity hedge fund (HFRX Equity Hedge Index) and 13.7% for the S&P 500 Index. One of our priorities is maintaining a culture that is conducive to rational thinking—a culture that allows us to avoid distractions. Successful investing is not done on a day to day, month to month, or even year to year basis. Rather, it is done over a long-term time horizon and as Leo Tolstoy wrote many years ago: "Time and patience are fierce allies to have at your side." In a year where a majority of hedge funds and actively managed funds did poorly, we did our best to stay the course to follow Tolstoy's wise words.

Joel Greenblatt, a very successful value investor and author, recently said on Wealthtrack about a study of Institutional managers over a ten year period, that 47% of the top performing managers over a ten year period languished in the bottom decile (10%) for 3 of those 10 years. The most likely reason for this is that the worst performers were actively trying to beat their peers by moving in and out of stocks and the top performers were patient and did nothing when the market dipped. Market gyrations are the type of distractions we try to avoid. We continue to be amazed that simply doing nothing most of the time is better than actively moving in and out of the market. Thus, we did not make too many changes in the portfolio. We only took two new positions but we did find the opportunity to add to several existing positions. We ended the period fully invested with six core positions which make up approximately 75% of our portfolio. The rest are smaller legacy positions that we are comfortable holding and will add to or will slowly move out of when we think the time is appropriate.

The two new positions we bought are GM and GM long-term warrants when the market dipped in October. GM has languished at its 52 week low for over a year and we thought it timely to add GM to our portfolio at these prices. We feel the company is handling the current crisis well and in time it too will pass. The company has a strong balance sheet, a motivated workforce and a strong demand for its products. It will soon return to doing what it does best which is making cars. In addition to our purchase of GM and GM Warrants, we added to STX and MU. We are very comfortable with the long-term outlook for STX and MU. They currently account for approximately 7% and 8% of our portfolio. You can read and download our analysis of STX on our newly updated website here. After a 23% gain in FNMA we exited our position. We were fortunate to exit the position prior to a recent court decision that we correctly anticipated which dropped the stock over 40% in a number of days. We are still committed to our thesis on FNMA and we think that the rule of law will prevail and shareholders' interests will ultimately be restored. However, we felt the volatility surrounding the stock was too high to justify holding it. We will patiently wait out the volatility and reenter when we feel it has subsided as the case progresses through the courts.

As mentioned above, we hold a concentrated portfolio with 90% of our portfolio in 10 stocks. All these positions performed well in the past year and we expect them to perform well long into the future. Real estate did approximately 30% last year and two of our largest core holdings GGP and HHC are recovering strongly from their restructuring. They are benefiting from low interest rates and a growing economy neither of which are reflected yet in the price of the stocks. Our next largest position is AIG warrants. The warrants performed well yet AIG still has not fully recovered from the 2008 crisis and is trading still trading below its book value. This is an unusual situation for a large cap stock such as AIG and we will wait patiently until it recovers as we have until 2019 before the warrants expire.

We launched Brookhurst officially in June 2013. It has been a year and a half now and strong returns have caused our assets to grow by over 36%. We are thankful for these opportunities and results and hope we continue to prosper with hard work and patience. This would not be possible without the strong Rule of Law our country continues to provide to its citizens. We are reminded continuously how incredibly fortunate we are to live in this society when others around the world are not so fortunate.

However, as value investors we still make our fair share of mistakes. Identifying undervalued businesses is not the hardest task we face. Identifying the catalyst for change we feel is the harder part. Many companies are stuck in their ways and are happy muddling along for one reason or another. Institutional complacency by either the CEO or the board who do not have the shareholder's interest in mind is usually the root cause. Another is the sweet allure of asset-plays. Buying a company based upon net tangible assets – debt, as opposed to earnings and free cash flow. Many times these beautiful sirens leave us stranded upon treacherous waters. We currently have one in our portfolio that accounts for about 3.4% of our portfolio which we are attempting to exit. Hopefully next year we will be rid of this tempting siren and put it in our mistakes folder as a lesson learned but not forgotten. We own up to our mistakes and try not to repeat the same mistakes in the future. Or at the very least when I come to my partner with an asset play idea he at least will quickly remind me of our previous lessons so that it will help guide me thorough these tempting and tempestuous waters.

Thank you for your continued support and patience and we wish you all the best in the New Year. We are extremely grateful for the ability to live and work in a county that respects the Rule of Law.

I'll leave you with a gentle reminder from Warren Buffet on the lessons of patience.

Mike

"Charlie [Munger] and I always knew we would become very wealthy," he told us, "but we weren't in a hurry." After all, he said, "If you're even a slightly above average investor who spends less than you earn, over a lifetime you cannot help but get very wealthy — if you're patient."
–Warren Buffet to Guy Spier

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.

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