Dear Fellow Investors,

Our portfolio returned 18% for 2022 (net of fees), a good year in absolute terms and an excellent year in relative terms as nearly every asset class and broad index suffered considerable losses for the year. Although returns were lower this year than 2020 or 2021, our 2022 performance feels the most satisfying given the market backdrop and illustrates the value of our process and strategy. I believe Warren Buffett's decades old quote encapsulates the past couple of years best:

"A rising tide floats all boats… only when the tide goes out do you discover who's been swimming naked."

Almost all asset classes and fund managers delivered strong results from mid-2020 through the end of 2021, making it hard to discern who was generating returns despite taking on excessive risk vs. who was generating strong returns while remaining prudent. As inflation entered the picture early this year, it drove up the cost of capital and quickly brought down lofty valuations across the board. This quickly exposed those riding the wave of low cost capital, i.e., swimming naked, as opposed to investors pursuing investments with attractive return potential along with a margin of safety and less risk of loss of principal.

I'd also like to look beyond the last few years and reflect on Smoak Capital Management's humble beginnings and historical performance given we're approaching the firm's 5 year anniversary in June. My initial goal for the firm was simple: outperform the S&P 500 Index as much as possible over the next five years while minimizing the risk of permanent losses. This may sound simple and generic at first glance but in reality very few active managers are able to generate sizable alpha over long timeframes. And while sounding simple and generic, it is much more difficult in practice. I'm pleased we've delivered on our goal and generated **51.2% annual returns**, a healthy **40%+ CAGR** above the S&P 500, since mid-2018 with returns by year below:

Year	Net Return	S&P 500	Difference
2H 2018	11.5%	-6.9%	18.4%
2019	108.3%	31.5%	76.8%
2020	38.7%	18.4%	20.3%
2021	69.1%	27.9%	41.2%
2022	18.2%	-18.1%	36.3%
CAGR	***51.23%***	***9.73%***	***41.49%***

$100,000 invested with Smoak Capital Management since inception (June 2018) has now grown to $644,246. Firm AUM has also grown from a little over $1M at inception to over $15M today, mostly due to performance but also because of additional investors and contributions. I'm open to adding aligned investors as well, so if you know of anyone who may be interested in learning more about Smoak Capital, please forward along my contact information.

I remain as confident as ever in the business prospects of our core positions while also excited about the greater number of attractive investment opportunities presented by market declines, and I believe our investment returns will continue to reflect our prudent process and approach.

I sincerely thank you for entrusting me with your hard-earned resources. With patience, focus, and a process-oriented mindset, I'm confident our portfolio returns will continue to exceed the broader market over the long-term. As always, feel free to reach out anytime with questions or concerns.

Best Regards,

Below I've included more details on some of our investments:

FitLife Brands (OTC:FTLF)

FitLife Brands is a nutritional supplements company that has made significant strides since near bankruptcy in 2017. FitLife's management team orchestrated an impressive turnaround through significant cost reductions, focus on core high-margin products, and development of a high-growth, high-margin ecommerce channel. FitLife has been a core holding of our portfolio for years and will likely continue to be.

In early 2022, FitLife was unable to timely file its 10-K due to a revenue recognition issue raised by their audit firm. The stock declined as investors were understandably unhappy with the bad news. But while the audit issue seemed concerning on the surface, a closer look at their financials and an understanding of the materiality of the issue revealed a relatively small impact from any potential changes. This allowed us to pick up more shares at depressed prices until the issue was resolved (with little financial impact) in late 2022.

The audit issue delayed some key initiatives of the company, but not long after they resolved everything they were able to find an attractive acquisition candidate (Mimi's Rock Corp.), a distressed consumer products company impacted by rising interest rates. The total purchase price is about $20M, and they probably paid a little under 5x EBITDA, so a pretty low and likely accretive multiple. More interestingly though are the immediate improvements FitLife management will likely be able to make given Mimi's excessive management compensation and undisciplined SG&A expenses. Importantly, this is one of the key areas of success FitLife's management had in turning around their own business so I'm confident in their ability to execute in this area. The combined entity is anticipated to generate EBITDA of over $12M and I believe that's likely a conservative estimate. With a market cap of around $80M, shares trade at only 6.6x EBITDA, a sizable discount to fair value in my opinion.

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ECIP Banks (Citizens Bancshares (OTC:CZBS), M&F Bancorp (OTC:MFBP), and others)

Early in 2022, I became aware of an unprecedented special situation where a group of small banks (some publicly-traded) were about to receive large amounts of capital on extremely favorable terms from the US Treasury. In some cases banks received 2-3x or more in new, non-dilutive capital than their existing equity. The capital came in the form of non-cumulative, perpetual preferred stock at only a 2% annual rate, and with no payments due for 2 years. The program is called the Emergency Capital Investment Program (ECIP) and most qualifying banks received the capital in the middle of 2022. Incredibly, despite many of the banks publicly announcing this new capital infusion (some as early as late 2021) and being very clear about the advantageous terms in press releases, the stocks barely moved. I researched all of the publicly-traded ECIP recipient banks, found the ones which I thought exhibited the best risk/reward and was happy to make a basket of them a large part of our portfolio.

To give an oversimplified example, if you have a relatively well-run and profitable small bank with tangible book value (TBV) of $20M, most of the time that bank is probably worth 1-1.5x TBV, so $20-30M. If that bank received $80M of ECIP capital on the terms I described above, that bank is now worth multiples of its prior price overnight. One way to back into the new value is to figure out the market value of the preferred stock if it was sold at arms-length to a third party. Given the incredibly attractive terms and especially the below market interest rate of 2% while inflation is running at 6-8% and short-term treasuries at 4-5%, the preferred stock is likely worth less than 20% of face value. So very simply, this small bank post ECIP infusion is probably worth $20M + $80M - $16M (20% of 80M) = $84M, or **180%-320%** more than before.

At first glance, many investors might think the situation is too good to be true. I myself had similar thoughts early on, but after months of talking to some of the top bank management teams among these ECIP recipients, reading through the ECIP preferred stock terms, and researching these banks; it was pretty clear the massive change in value was indeed real. And since it was real, not only did this situation present massive potential upside, but incredible downside protection as well because of the margin of safety afforded by the extreme undervaluation and the easily known value of the new asset, cash.

While most of these ECIP recipients' stocks have appreciated considerably, I believe many still aren't yet at fair value. Further value will likely be realized through banks effectively putting the extra capital to work leading to increased earnings, increasing deposits/lending leading to greater size, or selling the bank to another CDFI or MDI (the fastest value realization of all).

Additional Links

- Please see the most recent fund summary document at the following link: Smoak Capital - Dec 2022

- If anyone you know is interested in learning more about the fund, please feel free to point them to **www.smoakcapital.com**, have them email me at **dsmoak@smoakcapital.com**, or feel free to forward on the most recent summary document above