Dear Investor,

The Spree Capital Advisers Composite Index advanced 3.98% net of fees in the first quarter of 2021.

Spree Capital Advisers Returns vs. Indices							
	2019	2020	JAN	FEB	MAR	YTD	ITD
Spree Capital Advisers	25.27%	45.72%	12.46%	6.98%	-13.56%	3.98%	89.80%
S&P 500 Total Return	31.49%	18.40%	-1.01%	2.76%	4.38%	6.17%	65.32%
HFRI EH: Fundamental Growth Index	13.74%	24.62%	3.17%	3.91%	0.15%	7.37%	52.20%
Barclay Hedge Fund Index	10.64%	11.14%	1.05%	2.58%	1.21%	4.90%	28.99%
Barclay Equity Long Bias Index	15.28%	16.31%	1.60%	4.73%	2.39%	8.95%	46.06%
Barclay Equity Long Short Index	6.59%	9.27%	-0.11%	5.13%	1.79%	6.90%	24.49%

Q1 2021 Review

The first quarter of 2021 had several attention capturing events. January was defined by short squeezes and investor de-grossing. February had record SPAC issuance and a prolonged selloff in treasuries. March saw a highly leveraged family office suffer from margin calls and a rapid liquidation. A historic drawdown in treasuries coincided with a steepening yield curve and escalating inflation fears. Under the surface of a mid-single digit quarterly return for equity indices were 30% and 15% returns for the energy and financial sectors, and a meaningful contraction for many long duration assets.

The Spree Capital Advisers Composite Index did well amidst the fund unwinds in January and the pressure on long duration assets in February but was impacted by the externalities that resulted from the liquidation of the highly leveraged family office in March. Fund unwinds, quantitative momentum funds, and high frequency traders often conspire to exacerbate movements in specific stocks and specific sectors. This presents opportunity for new investments, and occasional consternation for existing investments. The net of it amounts to temporary noise for great businesses executing on winning strategies to compound earnings over the long term. As of this writing, the noise has quieted down, and the March pressure has reversed itself.

Our businesses are doing well, and thus we only made one minor adjustment to the portfolio. In the first quarter we sold Cars.com (CARS) in order to redeploy funds elsewhere. Our return on CARS of 40% hit our bogey over our nearly two-year holding period but extracted a modest opportunity cost as it underperformed the rest of the portfolio. Our returns and exposure continue to be weighted towards high quality businesses with long duration runways for scalable revenue and earnings growth. One new such position, Intercontinental Exchange (ICE), is discussed below.

<u>Intercontinental Exchange, Inc (ICE)</u>

In our Q3 2020 letter we articulated the reasons why we were investing in IAC/InterActiveCorp (IAC). One part of our thesis was IAC's repeatable business model of identifying markets undergoing offline to online conversion and executing a proven roadmap in making investments and providing technological and operating process expertise to reduce customer pain points in order to drive conversion and grow the addressable market. As it relates to our new investment in Intercontinental Exchange (ICE), the end markets are different, but the value creation mechanism of their repeatable business model is largely similar.

Intercontinental Exchange was founded in the year 2000 after Western Power Group executive Jeff Sprecher bought Continental Power Exchange from MidAmerican Energy for $1. Sprecher made the acquisition because he recognized that the deregulation of the electric power industry in the United States had opened a market for surplus energy to be traded between power plants. Using eBay as a model, Sprecher aimed to develop a transparent marketplace for over-the-counter energy trading. Acquisitions of International Petroleum Exchange, New York Board of Trade, Creditex, Climate Exchange, NYSE Euronext, Interactive Data Corporation, and Ellie Mae followed, with the commonalities of successful acquisition consisting of small companies early in their growth trajectory that could be scaled on ICE's platform, and large mature companies where ICE's technological and operating expertise could reinvigorate and scale their growth trajectory.

Today, Intercontinental Exchange is a transactional marketplace and subscription database business with global scale. Entrenched network effects in a wide range of asset class marketplaces provide a platform from which ICE uses its technology and operating expertise to layer on growth opportunities. After applying digital technology to increase the efficiency of marketplaces, ICE rolls out new innovations on top of its scalable infrastructure. Core competencies in collecting and cleansing unstructured data to build databases enforce ICE's ability to capture the data exhaust from its marketplaces to provide recurring subscription-based revenue streams.

Despite ICE's repeatable business model and proven ability to continuously innovate driving a 14-year EPS CAGR of 17%, investors are currently skeptical of ICE due to a February 2020 news leak that ICE was talking to eBay about a transaction, and due to the sticker price of ICE's October 2020 acquisition of Ellie Mae being higher than its valuation the prior year. In Intercontinental Exchange, we see five paths to value creation.

First, ICE's Q3 2020 acquisition of Ellie Mae creates an end-to-end ecosystem for the mortgage industry to use ICE's digital rails to digitize the mortgage process across lead generation, processing, underwriting, closing, and servicing. The mortgage transaction process is like a manufacturing process before the advent of the moving assembly line. A highly fragmented and labor-intensive analogue process involves dozens of steps, hundreds of pages of paper documents, non-standardized third-party verification services (reporting requirements for credit verification, title, appraisal, flood, and mortgage insurance) and regulatory and secondary market requirements. The cost to navigate this complex process has pushed loan origination costs from $4,000 before the Global Financial Crisis, to upwards of $10,000 today. Labor accounts for 67% of this cost, due in part to antiquated methods such as "stare and compare" document verification. This highly inefficient analogue mortgage supply chain is a perfect fit for ICE's proven expertise in using technology to facilitate the secure exchange of information to enable transactions between counterparties. Like any assembly line, standardization of work creates learning curve effects that remove the bottlenecks that inflate cycle times and constrain the capacity of the system. Automating an assembly line where a digitized mortgage never has to leave the ecosystem has five value generating implications.

One, ICE has an established platform to benefit from increasing throughput and ancillary product innovation to cross sell to a growing subscriber base. Key to this benefit is ICE's model driven business and its closed customer feedback loop that provides visibility into what products and services are most in demand, and where gaps exist. With each loan touched an average of seven times throughout the mortgage process, ICE has a long runway to layer new product offerings that scale to a fragmented base of service providers. A 95%+ retention rate and an analogue to digital conversion tailwind supports this long runway for earnings growth.

Two, ICE's position as the industry standard setter provides the key to unlock share gains and market growth and reinforces a required information protocol for ICE's data business. Ellie Mae's Encompass mortgage origination offering acts as the system of record for a mortgage transaction as it automates the information gathering, and adherence with regulatory requirements and secondary market standards. As ICE drives the loan manufacturing process from analogue to digital, data is cleansed, ensuring product quality for the thousands of lenders and third-party service providers that use ICE's digital rails. As we have seen with other businesses, when a party controls the industry standards either through a first mover advantage, standards essential patents, regulatory capture, or through control of an ecosystem, they are the gatekeeper that controls the interoperability of products and barriers to entry for service providers and competitors in the industry. With 40% market share in mortgage processing and 25% of the mortgage processing market still ensconced in expensive homegrown solutions operated in house by nonbank lenders, as ICE increasingly becomes known as the industry standard, it has a long runway of mortgage processing share gains and overall market growth. As ICE gains share, the scalability of the business model shows up in both subscription growth and volume-based growth for the mortgage processing software, but also in the products that the data cleansing protocols enable.

Three, ICE grows data subscription sales at high incremental margins. ICE's mortgage supply chain generates a treasure trove of data that accrues in siloed data sets. This treasure trove of data is valuable due to its proprietary and perishable nature and because of the proprietary insights it offers to Ellie Mae's large current subscriber base, and to ICE's large addressable subscriber base. Currently, Ellie Mae has third party vendors in its app store utilizing partial data sets, but this database only serves service professionals in the mortgage industry. As ICE uses its proven expertise in cleaning and structuring data to enable institutional subscribers to drive actionable insights in real time, ICE is in a position as the standard setter and de facto source of information on the US mortgage market to sell the picks and shovels (software to mortgage professionals and service providers) while selling the gold from the mine (data subscriptions).

Four, as ICE becomes the de facto source for mortgage processing infrastructure and information on the US mortgage market, a Moody's effect accrues. Moody's competitive advantage lies in part due to entrenched fixed income investor habits and Nationally Recognized Statistical Ratings Organization (NRSRO) regulatory capture that supports a signaling mechanism to credit investors which ultimately requires bond issuers to pay upwards of twice their annual interest cost savings for a Moody's rating. As ICE's end to end mortgage platform automates the mortgage manufacturing process while cleansing previously analogue data, ICE improves the asset quality of loans manufactured using ICE's digital rails. As the loans are increasingly viewed to have higher asset qualities associated with them, the signaling mechanism of an ICE mortgage pulls demand onto the platform and opens up ancillary opportunities for ICE. In the mortgage world where the ghosts of NINJA loans (No Income, No Job, and No Assets) from the Global Financial Crisis haunt investor memory, it is easy to see a situation where users "don't get fired for using ICE". This has implications both for users and for ICE's positioning in a blue ocean market for mortgage trading.

Five, as ICE's mortgage ecosystem grows, there is a long runway for ICE to become the clearinghouse exchange for the United States mortgage market. The mortgage market in the United States is an $11 trillion market. ICE's mortgage ecosystem and established exchange infrastructure offers advantageous interoperability for ICE to enable an exchange traded mortgage market. There are multiple directions for ICE to take exchange traded mortgages and their related derivatives, and we are excited to track this growth vector. All told, we believe ICE's opportunity in the mortgage market is greatly misunderstood and underappreciated.

Second, ICE generates top line growth with high incremental margins from its position in the digital plumbing of the fixed income market. Despite the progress digitization has made in the trading of all asset classes, fixed income trading remains analog based with only 25% of corporate bonds executed electronically. The bottleneck preventing digitization is in part due to the esoteric nature of debt investments. With millions of debt instruments all having unique characteristics, there remain significant frictional barriers to transacting. Given the complicated nature of fixed income investing (and a lack of dispersion in the value drivers), investors are increasingly preferring to own fixed income assets in exchange traded form rather than deal with the illiquidity and operationally intensive nature of managing individual positions. As the second largest provider of fixed income indices, ICE is wired into the plumbing of a fixed income market that requires the data and analytics subscription services that ICE provides. The beachhead for executing on this opportunity comes from ETF Hub, an automated platform that serves fixed income traders and investors. ETF Hub incorporates the ICE Select execution aggregation tool and ICE Bond execution with ICE Data Services to provide a picks and shovels offering that enables subscribers to transact in fixed income and enables market makers to manage the ETF lifecycle from creation, rebalance to redemption. As fixed income markets increasingly move from analogue to digital and fixed income ETFs take share of the market, ICE has a long runway to grow its trading venue connectivity, subscriber base, and product offerings.

Third, ICE benefits from increasing environmental consciousness in developed markets. There are two parts to this. One, as developed economies increasingly move away from coal and oil, the consumption and trading volume of natural gas grows. Exchange traded natural gas volume currently accounts for just 50% of the total natural gas trading volume. While this is significantly larger than the 10% exchange traded volume mix when ICE began investing in the TTF (natural gas) contract a decade ago, the 40% 5-year CAGR of open interest growth is likely to continue for years as the movement from analogue to digital continues. As natural gas usage globalizes beyond demand centers of North America, Western Europe and North Asia, ICE has a long runway to use a proven expertise in product innovation to launch a wide array of related differentials and intercommodity spreads on top of a scalable exchange infrastructure. Two, ICE offers optionality on a market-based approach to carbon emission. Cap and trade systems for greenhouse gas emissions dictate that companies purchase permits for each ton of greenhouse gas emitted. In putting a market price on units of emission, a cap and trade market incentivizes businesses to innovate to find cleaner ways to do business. After attempts at implementing this system failed in 2012, past opponents including the US Chamber of Commerce, and Business Roundtable are now pushing for its implementation. ICE, in part due to its 2010 purchase of Climate Exchange, has the expertise to scale a marketplace for carbon trading should this trend of acceptance culminate in legislation and marketplace acceptance.

Fourth, ICE offers asymmetric exposure to the digital asset market. There are two parts to this. One, ICE owns a 65% stake in publicly traded Bakkt (VIH/BKKT), an aggregator of and marketplace for digital assets. In providing tools to manage and exchange customer loyalty points, airline miles, gift cards, and gaming assets, Bakkt enables transactions in digital assets. Bakkt's ultimate goal is to make all digital assets fungible. Recent partnerships with Fiserve (reaches 600+ credit unions) and Blackhawk Network (enables purchasing of eGifts with digital currencies and loyalty points) are bringing Bakkt closer to scale. As we have seen in recent airline loyalty program securitizations, Non Fungible Token transactions, and gaming digital asset monetization growth, there is significant value in digital assets. With ICE's 65% ownership stake in publicly traded Bakkt, we have exposure to a digital asset toll booth without having to pick winners in the digital asset space and without having to directly fund growth capital expenditures. Two, ICE owns 1.4% of Coinbase, a stake worth $1 billion. We see a few possible paths for Coinbase. Ultimately, Coinbase needs to layer on incremental infrastructure offerings to preserve their first mover scale advantage as inevitable fast followers seek to build better mousetraps and trading spreads contract. The net of our view on Coinbase is that we believe ICE's current $1 billion stake will be used wisely and to the benefit of ICE shareholders.

Fifth, ICE's exchange business offers an asymmetric inflation hedge. ICE's exchange segment operates the digital rails that enable transactions for a wide range of financial instruments in the equity, credit, foreign exchange, interest rate, and commodity asset classes. These digital rails constitute infrastructure with direct scalability and high incremental margins. In the last decade, the amount of debt globally has exploded, while transparent central bank signaling has reduced volatility and trading volumes. Should inflation come to fruition in either a temporary or sustained fashion, ICE benefits in several ways. One, debt holders will need to hedge against interest rate risk. The dramatic increase in debt outstanding over the last decade means that many debt holders will be caught flat footed by a changing inflation paradigm, and will need to hedge their risk, causing increases in interest rate and foreign exchange trading volumes. Two, businesses across most sectors will need to hedge supply chain risks from rising raw material input costs pressuring margins, leading to commodity futures trading volume growth. Three, energy prices and trading volumes will rise meaningfully as consumer hedge usage and speculators shift funds to active and passive positions in the asset class. We have said in the past that predicting inflation is in aggregate a loser's game due to the prevalence of false signals in money velocity and the questionable accuracy of productivity measurements in the information, communication, and technology sectors. With ICE, we are investing because of several high conviction primary reasons, but we also like the convexity ICE provides as an inflation hedge, should a rates back up cause more than temporary pressure on long duration assets.

In Intercontinental Exchange we have these five paths to value creation backed by a proven management team that is significantly aligned with shareholders. We see Intercontinental Exchange as a steady top line grower with a meaningful runway to scale earnings growth.

Conclusion

The first quarter of 2021 had several events which attracted investor attention. Whenever a news topic of the day attracts attention, we spend our time calculating the second derivative effects and long-term implications. For great business models with scalable strategies and long runways to reinvest capital, most market drama provides opportunity for the prepared investor. Our focus on finding, vetting, tracking, and investing in great businesses with secular tailwinds and long runways to reinvest cash flows remains unchanged.

We thank you for your continued confidence in us as the stewards of your capital.

Sincerely,

Thatcher Martin, CFA

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Spree Capital Advisers historical returns are calculated from its inception date as a registered investment advisor, January 1, 2019. Spree Capital Advisers Composite contains fully discretionary accounts and for comparison purposes is measured against the S&P 500 Index. Minimum account size for this composite is $100,000. These results are presented net of management fees and include the reinvestment of income. Net of fee performance was calculated using the current highest management fee of 100 basis points, applied monthly and further netting out this adjusted figure against our current highest incentive fee of 10%, applied monthly. The strategy invests in common stocks, and options on publicly traded securities. The composite is a portfolio of securities that Spree Capital Advisers deems to be either over or undervalued based on our fundamental assessment of the issuers current and future earnings prospects. Spree Capital Advisers, LLC is a registered investment advisor in the State of Connecticut. The firm maintains a complete list and description of composites, which is available upon request. Results are based on fully discretionary accounts under management, including those accounts no longer with the firm. Past performance is not indicative of future results. The U.S. Dollar is the currency used to express performance.

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