Dear Investor,

The Spree Capital Advisers Composite Index declined 18.60% in the third quarter of 2021.

Spree Capital Advisers Returns vs. Indices							
	2019	2020	JUL	AUG	SEP	YTD	ITD
Spree Capital Advisers	25.27%	45.72%	-8.48%	-6.98%	-4.39%	2.16%	86.48%
S&P 500 Total Return	31.49%	18.40%	2.38%	3.04%	-4.65%	15.92%	80.49%
HFRI EH: Fundamental Growth Index	13.74%	24.71%	-1.28%	1.30%	-1.86%	10.87%	57.27%
Barclay Hedge Fund Index	10.64%	11.14%	-0.18%	1.06%	-0.96%	8.75%	33.71%
Barclay Equity Long Bias Index	15.28%	16.31%	-0.10%	1.78%	-1.96%	14.20%	53.10%
Barclay Equity Long Short Index	6.59%	9.27%	-0.22%	0.72%	0.98%	10.52%	28.73%

Third Quarter 2021 Review

The third quarter of 2021 saw a taper tantrum in quality businesses as the fear of inflation and tightening liquidity caused interest rates to rise. Unlike a similar dynamic in the first quarter in which quality businesses were pressured as fund flows favored cyclical businesses, in the third quarter, value and cyclical businesses were pressured along with quality businesses as a strong dollar, expectations for Federal Reserve tapering, and pessimism over the strength of economic growth all called in to question a potential emergence of stagflation.

The operating trends in our businesses continue to exhibit strong trajectories despite what short term stock price behavior might suggest. We are never happy with underperformance in any quarter, but it is a price we sometimes must pay for meaningful long-term outperformance. While it is still early in the fourth quarter, much of the underperformance in the third quarter has reversed itself. We believe that every year there are several opportunities to invest in high quality businesses with asymmetric risk reward profiles. As the underlying factors that are causing the symptoms that are pressuring the prices of high-quality business begin to abate, we believe we are approaching one such opportunity.

Commentary

The just-in-time supply chain was first developed by Toyota chief engineer Taiichi Ohno in 1952. The core idea was to eliminate waste by only moving raw materials and work in process inventory when necessary for production. What was designed as a system for a proximate location, vertically integrated business went on to spread globally as labor costs became arbitragable due to the proliferation of Malcom McLean and Sea-Land's modularized intermodal container. In enabling geographically dispersed production and long-distance transportation, just-in-time supply chains and intermodal containers created a juxtaposition between longer lead times and increased demand for frequent, small sized shipments. Demand for efficiently integrated distribution centers to coordinate inbound and outbound physical flows at each echelon in the supply chain created a multitude of moving parts. The "I Love Lucy" chocolate factory skit has morphed from Lucy and Ethel working one conveyer belt to five hundred candy dippers operating intersecting conveyor belts delivering continuous production for Lucy and Ethel to process. The one thing that has not changed is that any single bottleneck still determines the capacity of the entire system.

The Covid-19 global pandemic has thrown a wrench into the gears of every single part of the highly engineered processes that allow modern business to function. Early in the pandemic, executives slashed orders due to unprecedented demand shocks. Governments worldwide then unleashed an unprecedented

$10.4 trillion in global stimulus on consumers that had initially cut consumption and increased their savings rates due to lockdowns. Home bound consumers flush with stimulus checks and increased savings then shifted their consumption patterns from experiential services to consumer products in order to meet pandemic induced demand to upgrade living spaces. Stretched supply chains, locked down factories, and declining developed world labor participation were met with grounded passenger planes (that typically carry half of all air freight), and an armada of container ships awaiting port entry (at 10x normalized shipping rates). In effect, the Covid-19 global pandemic has caused Lucy and Ethel and the 500 candy dippers to become merely a few hundred candy dippers operating stalled conveyer belts creating extended cycle times and inconsistent distribution, while demand for chocolate is through the roof. This is a disequilibrium and cost push inflation dynamic unlike any in modern times.

Exacerbating cost push inflation is the fact that the United States economy is performing well in relation to the rest of the world. This relative outperformance is causing dollar assets to be in demand both from an investment perspective and from a flight to safety dynamic. The strong dollar is exacerbated by the Federal Reserve signaling the removal of very highly accommodative financial conditions in favor of merely highly accommodative financial conditions. While all of the Covid-19 global pandemic induced symptoms feed headlines and propagate fear, it is important to remember that every single factor that is a root cause of inflation and the strong dollar is either directly or indirectly caused by the pandemic. The most important questions to understand are what is the inflation rate once supply chain bottlenecks have abated, and when will those bottlenecks abate?

When will supply chain bottlenecks abate? Our research suggests that supply chain bottlenecks will largely abate in the first half of 2022. Full normalization is less important than clarity in the trend towards normalization. Markets tend to look through transitory effects once the trend becomes indisputable, and we expect this time to be no different.

What is the inflation rate once supply chain bottlenecks have abated? Our research suggests much lower. If Covid-19 becomes endemic like the seasonal flu, supply chains and spending patterns will return to normal. If vaccines and antivirals such as Merck's Molnupirovir eradicate Covid-19 like smallpox, polio, and so many other epidemics before it, supply chains and spending patterns will return to normal. All the while, almost every long-term secular driver catalyzed by technological innovation is deflationary.

In our second quarter investor letter, we wrote about structural frameworks that created the building blocks for world changing technological breakthroughs. Today, structural frameworks supported by the benefits of scale inherent in outsourced service providers lower barriers to experimentation. In the same way that Taiwan Semiconductor's foundries enabled semiconductor innovation by allowing fabless chip designers to create technological breakthroughs that reinforced Moore's Law, anyone with a credit card can now access computing infrastructure at scale to test, iterate, and enable technological breakthroughs. Scalable computing infrastructure is driving deflation in computing costs and advances in artificial intelligence that are permeating every industry and driving improved decision making and lower normalized logistics and inventory costs. Growth in contract research organizations (CRO) and contract development and manufacturing organizations (CDMO) provide industry with the same benefits of scale and reduction in barriers to experimentation that has proved so beneficial in perpetuating Moore's Law in semiconductors. The emergence of automated cloud laboratory companies such as Emerald Cloud Lab and chemist Lee Cronin's "Chemputer" are working to lower the barrier for experimentation for practitioners in the hard sciences. Should cloud computing, artificial intelligence, CROs, CDMOs, and virtualized labs continue the path to enabling an industrial revolution that transitions biology and chemistry from an empirical science of trial and error to an engineerable science with predictable and scalable outcomes, deflationary effects are exacerbated. Should 3-D printing come to fruition at industrial scale, the impacts on supply chains will be dramatic, and deflationary. To be clear, any investment that we make is based on the merits of the business and not based on secular drivers. Our point is that while the market is focusing on the inflationary effects directly and indirectly caused by the Covid-19 global pandemic, it is important to remember that the speed of technological innovation is accelerating, and almost every side effect of technological innovation is deflationary.

Should our research findings of long term secularly deflationary effects offsetting pandemic induced episodic inflationary effects prove incorrect, our businesses will benefit in either scenario. The businesses that meet our framework for investing benefit from pricing power and a royalty like nature inherent in their business model. This royalty-like nature sometimes stems from providing a service that unites two groups and passes through costs in real time. Other times this royalty like revenue stream stems from the businesses' position as a toll collector on mission critical parts of another business's revenues. As such, our businesses do not have to invest more capital to simply maintain the business in inflationary environments. The lack of correlation between maintenance capital expenditures and inflation ensures that funding remains available for the high return on invested capital opportunities available in a multitude of growth initiatives. This dynamic stands in contrast to many of the highly cyclical businesses that have benefited this year from reopening trends and inflationary pressures. Many of these high fixed cost businesses have high maintenance capital expenditure needs and exposure to lagging effects of depreciation benefits based on pre-inflationary, antiquated book values. Stagflation would only make this worse when costs are higher, cyclical sales do not grow, and real earnings are masked by antiquated depreciation schedules. A hallmark of a quality business is that it is a quality business in all environments throughout the cycle, not merely when the stars align.

Conclusion

While many are focused on trailing inflation numbers, we believe that all of the factors that are driving the root causes of inflation are episodic, and many of the countervailing forces are secular and deflationary. Amidst the worry of the day, we are finding numerous opportunities that we are working to get ahead of for when the episodic factors abate. Several times each year we get opportunities to invest in great businesses at asymmetric risk reward profiles. We believe that this is setting up to be one of those times.

Our focus on finding, vetting, tracking, and investing in high quality businesses remains unchanged. We thank you for your continued confidence in us as the stewards of your capital.

Sincerely,

Thatcher Martin, CFA

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.