



Dear Investor,

The Spree Capital Advisers Composite Index advanced 20.22% net of fees in the third quarter of 2020.

Spree Capital Advisers Returns vs. Indices														
	2019	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	YTD
Spree Capital Advisers	25.27%	-4.66%	-10.10%	-17.42%	10.79%	9.42%	2.08%	19.17%	2.56%	-1.63%				5.30%
S&P 500 Total Return	31.49%	-0.04%	-8.23%	-12.35%	12.82%	4.76%	1.99%	5.64%	7.19%	-3.80%				5.57%
HFRI EH: Fundamental Growth Index	13.74%	-0.53%	-2.63%	-9.72%	7.17%	3.85%	3.36%	4.81%	3.48%	-1.93%				7.00%
Barclay Hedge Fund Index	10.64%	-0.18%	-2.84%	-9.16%	5.37%	2.67%	2.17%	2.68%	2.38%	-0.63%				1.73%
Barclay Equity Long Bias Index	15.28%	-0.77%	-5.05%	-12.02%	8.16%	4.10%	2.28%	3.60%	4.23%	-1.72%				1.33%
Barclay Equity Long Short Index	6.59%	-0.67%	-2.21%	-6.04%	4.58%	1.65%	0.90%	1.81%	2.10%	-0.59%				1.16%

Q3 Review

In the third quarter of 2020 the tug of war between reopening the economy and containing COVID-19 outbreaks continued along with the coincident political brinkmanship over additional fiscal stimulus.

The dynamic we discussed in our second quarter letter regarding the US Treasury and the Federal Reserve working in conjunction to support expansionary fiscal and monetary policies remains in effect. As we look ahead to the fourth quarter of 2020, we see a variety of political, pandemic, and fiscal stimulus scenarios. Our approach is to map out various potential scenarios and their second and third derivative impacts, and when one unfolds and the market risk is appropriately priced in, we use the opportunity to invest in great businesses at depressed valuations. The great businesses that we source, vet, and invest in are riding long term secular tailwinds that both grow the size of the total addressable market and present a long runway of high return on invested capital opportunities. These disruptive business models are not dependent upon growth in the economy to successfully execute their path to long term shareholder value creation. As such, transitory market risk scenarios typically provide great opportunities for us to add to existing positions and to build new positions in the great businesses on our watchlist.

Our Undiscovered Compounder strategy contributed 20.22% to our net return in the quarter. In the third quarter we sold our position in Rosetta Stone (RST) upon the announcement that it was being acquired. When we underwrite an investment, we look for situations where we are likely to make multiples of our investment over a 2-5 year time period. In unfortunate situations where we are forced to cash out prematurely due to an acquisition, our disappointment is allayed by our strong bullpen of on deck businesses. In our on-deck circle, our Undiscovered Compounder watchlist currently has sixty-three businesses in the funnel.

Our Value with a Catalyst strategy contributed negligibly to our net return in the quarter. We continue to avoid merely "good" business models and are finding few value with a catalyst situation that pass our standards for inclusion. Currently, our Value with a Catalyst watch list has three businesses in the funnel.

IAC/InterActiveCorp (IAC)

In our Q4 2019 letter we wrote about our rationale for investing in Match Group (MTCH). Early in the third quarter we used market confusion over the mechanics of the Match Group spinoff to build a position in IAC/InterActiveCorp (IAC) at a discount to IAC's stake in publicly traded ANGI Homeservices (ANGI) and the cash on IAC's balance sheet. Confusion over IAC's debt transfer to Match Group and cash accruing to IAC from Match Group's secondary proceeds and special dividend created a situation where we were being paid

to take ownership in a host of great businesses that are set to compound shareholder value over the long term. IAC has often traded at a curious discount to the value of its businesses, but a newly simplified structure and plans to shine light on the businesses in IAC's portfolio meant that this negative stub value was especially irrational, and ultimately short lived. Over time, we expect many of the businesses within IAC to be individually worth significantly more than the entire value of IAC today.

From the initial purchase of television station holding company Silver King Communications for \$250 million in 1995, Barry Diller and IAC have multiplied their investment by over 240 times. Through a proven repeatable process, IAC identifies nascent businesses exposed to the secular trend of consumers shifting their consumption patterns from offline to online, makes long term investments to remove customer pain points on the supply side and demand side of the marketplace, and drives penetration of the category to take dominant share and to grow the total addressable market. When these category leaders grow their market to the extent that they are able to stand on their own, IAC spins the businesses to shareholders and refocuses its efforts on a new series of e-commerce marketplace businesses.

We often seek situations where proven management teams act like owners and invest through the income statement via lower margins and diminished short-term profits in order to grow market share and grow the market. These situations are inevitably judged harshly by a market myopically focused on the short term, but when executed well by proven operators, these situations create opportunities for outsized shareholder returns. We believe that this dynamic is evident in several of IAC portfolio companies, and that the outcome will be no different. With any investment we make, we look for multiple ways to win. In IAC, we see eight.

First, IAC's largest holding, ANGI Homeservices (ANGI), is significantly undervalued relative to its earnings power today and has a long runway of high return on invested capital opportunities to take market share, grow the addressable market, and compound shareholder value. ANGI is an online marketplace for home services. Initially founded as a lead generation business, ANGI is rolling out fixed price home services which will accelerate ANGI's transformation into a platform for managing one's home. ANGI stands to benefit in several ways.

ANGI has attractive market dynamics from high customer fragmentation on both the supply and demand side of the marketplace and from the non-discretionary nature of 60% of home service requests. Nevertheless, despite the ubiquitous usage of smartphones and the role of the internet in our daily lives, only 20% of home services market transactions occur online. The remaining 80% of home service jobs are sourced offline through referrals and manually tracking down, scheduling, negotiating, and paying service professionals. Tailwinds from tech native home buyers and increasing buyer preferences for on demand purchase functionality create a tailwind for ANGI's superior product market fit to accelerate this offline to online conversion. However, ANGI's historical go to market strategy has held back the potential of the business.

Successful marketplace businesses unlock incremental demand in the market by removing buyer friction on the demand side that then leads to incremental demand from new buyers that would not otherwise transact. In home services, customer pain points inherent in the search cost of finding a skilled tradesperson with availability, communicating a job's complexity, and negotiating timing and pricing means that many home service jobs are simply never completed. ANGI's business model transition to fixed price offerings unlocks incremental demand in the marketplace by addressing these pain points. With ANGI's fixed price offering, a consumer on the demand side of the platform browses for their required service, schedules and purchases the quality guaranteed service from a vetted professional at a fully transparent, fixed price. As demand side users increase their use of instant booking and increase their bundling of routine maintenance projects, the

ANGI home management platform becomes the place where users look to for bigger ticket and ad hoc projects. As the platform becomes the home management tool for the 6-8 maintenance jobs that the 120 million US households perform annually, this has important implications for pulling service providers onto the platform.

With ANGI, the demand side has a clear product market fit, but the supply side has been the bottleneck to enhancing liquidity in the marketplace. Historically, when certain service providers such as plumbers or electricians were forced to pay for leads that they may not have needed due to capacity constraints, they had no need to spend upfront marketing dollars for incremental business. This dynamic caused 90% of service providers to be resistant to using the ANGI platform. Fixed price offerings are set to address this. With fixed price offerings, service providers are paid instead of charged, and all of their back-end needs in scheduling, billing and collection are automated. In using the ANGI platform, the service provider also benefits from guaranteed jobs at 4-5x the win rate of the previous model without the hassle and inefficiency of paying upfront for unmatched leads. With any marketplace, supply inevitably is pulled to where the demand is, provided the matching mechanism is strong enough. At ANGI, as demand continues to aggregate in the marketplace, and the supply side dynamic changes from sold leads to offered jobs, service provider penetration will continue to grow, reinforcing the local network effects and liquidity of the marketplace.

As liquidity in the marketplace grows, product features such as Home Advisor Pay work to strengthen the moat around ANGI's business by positioning ANGI in the nexus of payment flow. By being in the nexus of payment flow, ANGI's deeper relationship with consumers and service providers create the framework to deliver incentive discounts, and to drive referral and loyalty programs. Product line expansion such as financing options for home repair also offer meaningful opportunities to grow the size of the home services market.

IAC and ANGI's initiatives in fixed price booking feature rollouts are building liquidity on the marketplace. As the flywheel of demand side and supply side user growth turns, the marketplace tips to a point where no user is incentivized to use offline methods to manage their home or manage their business. As home service jobs become more standardized and modularized through ANGI's fixed price offering, ANGI's ability to set the take rate to maximize revenue and margin dollars improves. ANGI's current earnings power is primarily based on an advertising rate that is a mid-single digit percentage of the job value. A fixed pricing take rate is 2-3 times greater, and a marketplace take rate at scale is 3-4 times greater. We have seen the power of marketplace businesses that are able to successfully aggregate demand while commoditizing supply, both in taking share and in growing the market itself, and we believe that ANGI Homeservices will be no different.

Second, Vimeo is set to compound IAC shareholder value as the secular tailwinds of video communication layer subscriber growth on top of Vimeo's purpose-built scalable infrastructure. Vimeo is a cloud-based video software platform that independent creative professionals and businesses use to create, host, distribute, market, analyze, and monetize videos. In Vimeo, we see similarities to the business model and go to market strategy that attracted us to [Wix.com \(WIX\)](https://www.wix.com). Through a freemium, self-service customer acquisition funnel, Vimeo lowers the barrier to professional quality video creation in the \$30 billion video solutions market. As Vimeo's 175 million users convert to paying subscribers, 60% of users onboard themselves and 99% of the 1.5 million subscribers use the platform on a fully self-service basis. An established footprint with at least one paying customer in over 60% of Fortune 500 companies provides significant opportunities for subscriber growth.

When one considers the size of the market and Vimeo's strategy to grow the market, the structural advantage of IAC ownership is evident. When faced with the opportunity to be profitable in 2021, IAC and

Vimeo instead chose to press the accelerator on top line growth. In choosing to maximize the opportunity to unlock more utility functions for enterprise customer use, Vimeo has a long runway to increase enterprise ARPU by multiples of its current rate of \$12,000. We believe that eventually, all one million global enterprises and 800 million small and medium sized businesses with an online presence will use video to communicate with their team members and customers. IAC's expertise in investing in the product to take out friction and develop more use cases to amass digital subscribers and increase the addressable market has been executed as a proven, repeatable process many times before, and we expect Vimeo to be no different.

Third, Care.com is in the early innings of a turnaround that will compound shareholder value over the long term. Care.com is an online marketplace that connects care providers to households. The provision of home care is a \$300 billion market in the United States and is supported by long term demographic tailwinds from an aging population needing elder care and from tech native, dual working parents needing childcare. As the market leader with dominant scale at thirty times the size of the next largest competitor, but with only a small fraction of the offline share, Care.com is in the early innings of transforming the industry from offline word of mouth search to online search and conversion. The first step in optimizing liquidity on the platform to transform the way users procure care providers comes from updates to Care.com's matching algorithm to address customer complaints of too much choice, to allow for better match execution.

The next step comes from optimizing Care.com's go to market strategy. Care.com monetizes through subscription pricing plans, despite the fact that most of the jobs filled on the marketplace are long term care jobs. This means that users often subscribe for a month, locate a care provider, and churn off the platform. As Care.com goes after the 79 million unfilled short duration childcare jobs, frequency of use and pricing power supported by a superior user experience favor a shift to on demand pricing. In addition to short duration childcare jobs, Care.com has a large white space opportunity in enterprise offerings. With the COVID-19 induced work from home paradigm shift, access to childcare is quickly becoming an employee benefit requirement. Between updates to the matching algorithm, moving to on-demand pricing, rapid booking for short term care, enterprise benefit demand, senior care, and the offline to online conversion, IAC has a long runway to optimize and scale Care.com.

Fourth, Dotdash is an attractive niche business with meaningful upside from usage-based pricing. Dotdash is a portfolio of ten online publishing brands with verticals in finance, health, lifestyle, beauty and style that touch over one third of internet users every month. By focusing on best in class service content, Dotdash helps readers with specific search intent answer questions that readers are likely to always ask. In doing so, search engines and social media platforms direct traffic organically to Dotdash's sites. Dotdash's advantage in driving organic traffic only grows as Dotdash's content creators continue to build upon their existing scale of content in their verticals. Secular growth in e-commerce plays into these strengths. As Dotdash's monetization engine shifts to a usage based pricing mechanism that takes a small piece of consumer's purchases as opposed to charging advertisers for impressions, Dotdash is able to better monetize the strength of their publishing brands, the growing quantity of always relevant content, and the value of high intent website traffic. The Dotdash flywheel of growing always relevant quality content, more users, and more revenue from users with high purchase intent transacting, all feed more internally generated cash flows to reinvest in high ROIC opportunities that strengthen earnings power.

Fifth, Turo is following the Airbnb and Uber playbook as it rides the rails of GPS and internet connected smartphones to unlock the underserved market opportunity afforded by the 1 billion cars globally that remain idle 90% of the time. Turo is the largest car sharing platform in the world. In the same way that Airbnb created a market that enabled homeowners to earn money by turning spare capacity into rentable units, Turo helps car owners share their idle cars through a user-friendly mobile application. This

marketplace business has attractive attributes such as high fragmentation, disaggregated supply and demand, a large addressable market, and network effects. While we are in the early innings of Turo's opportunity, we believe it is certainly worth more than the \$250 million IAC paid for it and the \$0 value ascribed to it in IAC's valuation.

Sixth, Bluecrew and NurseFly provide free optionality on IAC's ability to do what it has successfully done many times before; take a nascent marketplace business and use its proven expertise to eliminate friction on the supply and demand side to grow the market and take outsized share as the market converts from offline to online. Bluecrew is a marketplace that connects workers to jobs in the \$131 billion temporary staffing category. From IAC's early 2018 acquisition, Bluecrew has doubled revenues every quarter. With a low single digit market share but a significantly superior user experience compared to offline competition, Bluecrew has a long runway to remove user friction as it builds liquidity and takes dominant share of the market. NurseFly is an online marketplace that alleviates healthcare worker shortages by connecting skilled nurses, therapists, and healthcare professionals to employers. As IAC adds features and improves matching software to mitigate supply and demand side frictions at NurseFly and Bluecrew, improved liquidity of the marketplace facilitates scaling of the platform as the market tips from offline search to online conversion. Both NurseFly and Bluecrew are in the early innings of executing upon IAC's proven process of driving this transition, and have a long runway to compound shareholder value.

Seventh, IAC's recently disclosed 12% stake in MGM Resorts International (MGM) stands to benefit from IAC's proven ability to use direct marketing expertise to help MGM drive a long runway of offline to online conversion as the online sports betting market grows nationwide. MGM owns and operates casinos, hotels and entertainment resorts that account for 35% of the available rooms on the Las Vegas strip. As online sports betting expands across the United States, MGM has a large funnel of 34 million members in the MGM loyalty program that offers a natural digital customer on ramp. MGM also has the established global brand and scale to support the direct marketing of new digital first audiences. In addition to the tailwinds provided by online sports betting, MGM offers upside to the significant pent up demand created from curtailed trips and a new NFL team and stadium for when Las Vegas fully reopens. We see reasonable scenarios where the sports betting opportunity for MGM is greater than the entire current enterprise value.

Eighth, IAC's \$2.9 billion in unrestricted cash on the balance sheet offers free optionality on the ramifications of the current SPAC boom in the financial markets. The current boom in Special Purpose Acquisition Company seems to have caused many to forget that managers get 20% of any agreed upon deal as a promote. The combination of a typical 30% acquisition premium and 20% automatic shareholder dilution due to the promote explain the poor long-term performance of the vast majority of SPACs. Incentives on the SPAC manager side that favor doing any deal before the SPAC's expiration date, and management incentives on the selling party side that favor selling the company at what they view as an inflated price, combine to create a dynamic where many companies that should not be public at the deal price, or should not be public at this stage in their lifecycle, are being taken public. A public market that provides transparency on financials and business operations forces more appropriate valuations as the marketplace dictates what companies are worth, as opposed to the prior situation where just a small minority of incentivized private investors dictate the business valuation. IAC's \$2.9 billion in unrestricted cash and a boom in new companies going public via SPAC create a long runway of opportunity for IAC to selectively acquire busted SPACs as the next group of businesses to cultivate and scale to compound shareholder value.

In IAC, we see these eight ways to compound our investment in IAC as presenting numerous opportunities to individually create value greater than the entirety of IAC today. Collectively, they offer us a meaningful opportunity to significantly compound our investment over the long term.

Pinterest Inc. (PINS)

Early in the third quarter we used earnings related weakness to increase our position in Pinterest. Pinterest is an online discovery platform where 416 million high commercial intent users go to be inspired in their search for projects and products. These 416 million high commercial intent users have undefined wants that they are unable to express in text format. In seeking product and brand agnostic visual discovery these users are offering up a blank slate for merchants and brands to inspire and influence their purchasing decisions. This blank slate is offered up over long engagement periods in which the consumer is an aspirational, positive emotional state. In an age of constant digital distraction and escalating divisiveness, a growing ecosystem providing 416 million monthly active users prolonged positive engagement while they perform product and brand agnostic searches is extremely valuable. With any investment that we make, we look for multiple ways to win. In Pinterest, we see four.

First, Pinterest is enabling ecommerce on the platform by addressing the biggest pain point of its 416M users; an inability to easily purchase the products they discover on the platform. The first step in addressing this pain point is to grow the amount of buyable inventory. A recently launched catalogue uploader provides the self-service mechanism for merchants and brands to scale their products on top of Pinterest's established infrastructure. Pinterest's computer vision and machine learning tools then link the 240 billion user defined images on the 5 billion user curated Pinterest pages to the uploaded shoppable products. In doing so, this enables users to shop from their searches and from their saved boards.

Second, by enabling the full funnel user experience from inspiration to planning to purchase, Pinterest turns the flywheel to pull in brand and merchant advertisers. As merchants and brands see the organic traffic that Pinterest drives, they seek to increase their spend on shoppable advertisements. To support this, Pinterest is rolling out measurement and analytical tools that scale advertising on the platform. Self-service analytical tools that provide automated targeting and attribution to merchants and brands provide enhanced visibility on the return on investment on advertising spending on Pinterest. As Pinterest advertisement management tools and APIs integrate into merchant, brand, and advertising agency workflow, spend on the platform grows. Unlike other social media and engagement platforms, on Pinterest, users view shopping as a top priority. With shopping as a top user priority, Pinterest is perhaps the only platform where relevant ads add to the user experience. As long as ads continue to remain relevant and inventories match user needs, advertisements on Pinterest's platform could theoretically be 100% of the content on the platform, and these ads would still be additive to the user experience. With Pinterest advertising market share representing only 0.7% of US digital advertising spend and 0.03% of international digital ad spend, and with the digital advertising market growing at a mid-teen annual growth rate as it takes share from print advertising, we see a long runway for Pinterest to gain market share in this growing market.

Third, as Pinterest broadens the advertiser base both the scalable infrastructure and the dynamics of the advertising auction marketplace support top line growth at high incremental margins. Operating leverage inherent in the business model comes from a cost of sales tied to the number of users and the depth of their engagement. As merchants and brand advertisers layer marketing spend on top of Pinterest's scalable infrastructure, the incremental margin largely accrues to Pinterest's bottom line. The dynamics of the advertising market contribute meaningfully to this scalable operating leverage. Currently, every advertisement on the Pinterest platform is executed on the minimum bid. As the numbers of advertisers and the number of advertisements on the platform grow, advertisements are executed at the price the auction market determines for access to Pinterest's 416 million high commercial intent users. As fair market prices are established, Pinterest's ARPU scales to significantly more than the current \$3.59 global ARPU, and much closer to the \$29.78 global ARPU of Facebook.

Fourth, Pinterest is in the early innings of expanding its presence internationally. Currently, 321 million of the 416 million users are internationally based, and these users are growing 49% year over year. As international users continue to grow, Pinterest is rolling out the aforementioned playbook to make the international platforms more shoppable, with scaled advertising primitives that enable the full Pinterest ecosystem. The international audience has significant monetization potential from its current monetization gap of 21x (\$0.58 vs \$12.39 in the US) as international monetization grows to a 5x gap at scale.

In Pinterest we see an extremely valuable e-commerce and engagement ecosystem that is vastly under monetized. With these four steps, we see a path to meaningful shareholder value creation in the coming years.

Conclusion

In our second quarter letter we talked about how unprecedented monetary and fiscal stimulus have caused financial markets to ride a wave of liquidity on their way to new all-time highs. We articulated that the wave of liquidity has resulted in widespread multiple expansion, justified for businesses whose secular tailwinds have strengthened the drivers of earnings growth due to the pandemic, and unjustified for leveraged businesses exposed to deteriorating financials.

We are mindful of the closing of one of the floodgates of liquidity as expansionary fiscal policy faces a higher bar under certain political scenarios. As we look ahead to the many headlines we are likely to see in the coming months, we expect to find numerous opportunities to add to our portfolio of great businesses.

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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