Dear Investor,

The Spree Capital Advisers Composite Index declined 6.40% in the fourth quarter of 2021.

Spree Capital Advisers Returns vs. Indices							
	2019	2020	OCT	NOV	DEC	YTD	ITD
Spree Capital Advisers	25.27%	45.72%	4.18%	-6.12%	-4.30%	-4.38%	74.54%
S&P 500 Total Return	31.49%	18.40%	7.01%	-0.69%	4.48%	28.71%	100.41%
HFRI EH: Fundamental Growth Index	13.74%	24.71%	2.82%	-1.09%	0.75%	13.93%	61.60%
Barclay Hedge Fund Index	10.64%	11.14%	1.57%	-1.39%	1.18%	10.20%	35.50%
Barclay Equity Long Bias Index	15.28%	16.31%	2.70%	-2.21%	2.26%	17.15%	57.05%
Barclay Equity Long Short Index	6.59%	9.27%	0.82%	-2.38%	2.05%	10.63%	28.86%

Fourth Quarter 2021 Review

The fourth quarter of 2021 saw a violent rotation from fast growing businesses to slow growing, cyclical, and commodity-based businesses. Treasuries sold off, rallied, and sold off as Federal Reserve Chair Jerome Powell's newfound hawkish rhetoric ahead of his renomination confirmation hearing coalesced with pandemic induced durable goods inflation. Similar factor beta unwinds have unfolded many times in the past few years, but none have been as severe, and none have resulted in such extreme investor positioning.

Historically, our performance has followed a pattern of two steps forward, one step back. We are comfortable with this step function because we invest for long term outperformance. In 2021 we suffered from two steps forward and two steps back. There are three reasons for this: First, market returns were driven by businesses in financial and commodity-based industries. Because we invest in repeatable business models where value creation can be predicted and sustained, many of these businesses are outside of our strategy. Second, November and December morphed into a major liquidation event which mimicked the taper tantrum in the fourth quarter of 2018. A hawkish pivot by the Federal Reserve, the Omicron Covid variant, and seasonally low liquidity and risk appetite caused the average US listed stock to trade down 28% from its highs, and a majority of stocks in the Nasdaq Composite to trade down in excess of 50%. The severity of this carnage was masked at the index level due to the heavy lifting done by the five mega capitalization technology companies. The "S&P 5" businesses do not fit the criteria for our strategy. Third, three of our businesses are currently being viewed as "Covid beneficiaries". The businesses in question are long term growers that are set to grow at high rates for many years. While many focus on growth rates returning to pre-Covid levels, what is lost in this analysis is that structural changes in their end markets have extended the growth runways beyond pre-Covid levels. Short term-oriented markets are offering these businesses with improved fundamentals and improved outlooks at meaningful discounts and presenting spring-loaded opportunities for future returns.

Commentary

As it stands today, investor positioning has crowded into cyclicals and rate and inflation beneficiaries. At its core, inflation is the result of total spending outpacing an economies' capacity to supply goods and services. The unprecedented pandemic induced fiscal stimulus had the effect of inflating demand for durable goods while supply chains were capacity constrained. As the supply response to elevated pricing unfolds, price dampening impacts are exacerbated by the ongoing march of deflationary effects inherent in a debt financed economy with unfavorable demographic trends. The increase in hawkish jawboning from the Federal Reserve is an attempt to dampen sentiment to buy time for these effects to normalize prices without risking ineffective rate hikes pushing the economy into a recession.

The structural dynamics inherent in the market whereby the rate of inflation is peaking, and investor positioning is offsides for a return to debt financed economy trends presents an attractive investing environment for our strategy. Businesses can invest through their income statements while the market gives them little credit for growing revenues, cash flows, and competitive advantages. This dynamic presents asymmetric opportunities that will in time make many of today's prices look like a gift.

In a business with a multitude of historical case studies, one of the most interesting is the one conducted by Fidelity Investments that analyzed investor returns for the Magellan Fund between 1977 and 1990. During this period the Magellan Fund compounded at a 29% compound annual growth rate. Surprisingly, the average investor lost money. The reason for this is that the average investor sold during market declines and bought near market tops. The implication is that without a well-conceived strategy and the conviction to follow it, the average investor was exposed to the vicissitudes of their emotions in an often-irrational market. One of the most important attributes of successful investor outperformance is alignment with their strategy. We take pride in the fact that during this time of opportunity, many investors have shared their plans to commit more capital to our strategy.

In the interest of full alignment with our strategy, we thought it would be useful to expand upon and articulate why we do what we do, and why we do not do some of the things that have worked in recent months. Our strategy is to invest in high quality businesses that use revenue growth to scale earnings over the long term. Our process is structured in such a way to allow us to identify investments that demonstrate key attributes that mark highly successful investments. We look for eight key success factors in any investment that we make.

First, we look for repeatability in the business model. Attributes for execution of repeatability in the business model can be expressed in a variety of ways, but the end result must be that the competitive advantages are improved upon and reapplied. The repeatability that we look for supports advantageous leadership economics for the business in all market environments. While cyclical, commodity and leveraged businesses have outperformed recently, many of these businesses lack competitive advantages that can be repeatably applied to drive sustainable value creation throughout the cycle. When short term benefits provided by expansionary fiscal policy and inflation abate, investors will likely be reminded why it is so difficult to sustain value creation in businesses that have little control over demand, input costs, pricing, and competition.

Second, we look for predictability in the business and predictability in the businesses path to value creation. Predictability for us means that the business has forecastable value drivers that feed the path to value creation. Our research process focuses on understanding what drives value creation and everything in the interconnected web that influences these value drivers. Our focus on predictability keeps us away from business models whose value creation mechanism is dependent upon unpredictable commodity prices or unpredictable end market demand. Commodity oriented businesses and businesses exposed to highly cyclical end markets are in favor, but the track record of accurate predictability of value creation in these businesses is very low. A normalization of supply shortfalls, stimulus induced demand, and a slowing economy present meaningful risk to extreme investor positioning in these businesses.

Third, we look for growing end markets. Growing end markets solve the problems inherent in fixed pie situations where competitors are susceptible to making irrational decisions as they attempt to protect or acquire market share. Our businesses are creating or at the very least growing their end market. Creating and growing end markets drives meaningful value creation, as our businesses are able to create leadership economics in a growing share of a growing pie. Currently, investors are favoring slow and no growth industries. The inherent risk is that the supply response to expansionary fiscal policy induced demand causes businesses to irrationally compete for share of a shrinking pie. As inflation shows further signs of easing in the first half of 2022, there is meaningful risk that investor positioning shifts away from these businesses as rapidly as it shifted into it.

Fourth, we look for increasing returns to scale. Increasing returns to scale are important to us because operating leverage is often mispriced. We favor inflated fixed cost structures that consists largely of one-time costs that are brought down with scale reinforced by growing end markets. In such scenarios, our research aims to identify situations where the earnings power of a business is materially greater than what the market gives the business credit for. Many of the businesses that are in vogue have already scaled. Crowding in low growth businesses benefiting from elevated demand presents meaningful risk of investor exodus as a normalizing economy leads to decremental margins.

Fifth, we look for a long runway of high return on invested capital opportunities. This typically manifests itself in a business that is reinvesting internally generated cash flow to strengthen the core business and expand into adjacent markets with paths to value creation that are similar to the businesses core competencies and are thus repeatable. Many of the businesses that are outperforming of late are extremely capital intensive and do not earn their cost of capital. When one factors in questionable capital structures, investors must believe that inflation has reached a permanently high plateau, and that there will be no supply response from bottlenecked supply chains. Furthermore, one also must believe that expansionary fiscal policy will continue to grow such that it offsets deflationary effects inherent in debt financed economies with poor demographic trends. These are risky assumptions with low conditional probabilities.

Sixth, we look for a catalyst that stands to change the dynamics of the business or industry over several years. Typically, this manifests itself in a technological, managerial, or regulatory change. The short termism of many market participants means that change unfolding over several years is underappreciated and undervalued. Current investor positioning implies that the crowd thinks that there has been a regime change in the dynamics of inflation. We would point out that nothing about the last two years is normal. Those hoping for cyclical investments to mimic the outperformance from the 2001-2006 time period may need to find a new China sized country to industrialize.

Seventh, we look for competitive advantages that are growing. Growing competitive advantages are often underappreciated and undervalued, while static competitive advantages are often well understood and fully valued. A well understood competitive advantage in a low growth business is akin to a large castle on a hill. In an age of creative disruption reinforced by internet scale and outsourced services and manufacturing, the attack march of competition never ends. No growth businesses at extreme levels of investor positioning present real risk as markets normalize and investors rediscover that the quality of a business matters.

Eighth, we look for businesses that trade at meaningful discounts to their future earnings power. Many of the businesses in favor right now are held dear because of their historical earnings multiples. While it is certainly true that one must sometimes wear returns when one's understanding of a business's path to value creation is at odds with a short-term oriented market, businesses that can grow earnings at a high clip for a long period of time are often structurally undervalued. Conversely, many of the businesses in favor have questionable forward-looking valuations. Using short term-oriented markets as opportunities can be a superpower in compounding at attractive rates over the long term.

Conclusion

It is preferable to have strong performance in conjunction with meaningful future opportunities, but sometimes the two are inversely proportional to each other. While the year 2021 left us with returns below our underwriting threshold, our businesses benefited from strong growth in revenues, earnings, and competitive advantages. Several times each year, we are presented with asymmetric opportunities where high quality businesses are available at valuations that represent meaningful discounts to their future earnings power. We believe now is one such time.

As inflation shows further signs of peaking, and the economy shows further evidence of slowing, we believe businesses with long term growth profiles will meaningfully outperform. Throughout the cycle, the growth of a business is the single greatest determining factor that drives investor returns. With all the causes of inflation rooted in episodic drivers and the countervailing deflationary forces driven by long term secular trends, we believe that this time is not different.

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