



Dear Investor,

The Spree Capital Advisers Composite Index advanced 20.71% in the second quarter of 2021.

Spree Capital Advisers Returns vs. Indices							
	2019	2020	APR	MAY	JUN	YTD	ITD
Spree Capital Advisers	25.27%	45.72%	9.33%	-3.16%	14.00%	25.51%	129.11%
S&P 500 Total Return	31.49%	18.40%	5.34%	0.70%	2.33%	15.25%	79.45%
HFRI EH: Fundamental Growth Index	13.74%	24.71%	3.45%	1.05%	0.75%	12.73%	59.91%
Barclay Hedge Fund Index	10.64%	11.14%	2.04%	1.04%	0.78%	8.88%	33.87%
Barclay Equity Long Bias Index	15.28%	16.31%	3.00%	1.11%	1.22%	14.64%	53.69%
Barclay Equity Long Short Index	6.59%	9.27%	1.81%	0.70%	-0.35%	8.78%	26.70%

Q2 2021 Review

The second quarter of 2021 saw a continuation of the near relentless bid for the cyclical sectors that benefit from pent up demand for the post COVID-19 reopening of the economy. In particular, energy and financial sectors continued their strong performance with first half returns in excess of 45% and 25%, respectively.

Our penchant for high quality businesses with long runways of high return on invested capital opportunities means that we have minimal exposure to the cyclical businesses that have been leading the market since the November 2020 mRNA vaccine developments. Fortunately, the operating trends in our businesses have minimal sensitivity to the macroeconomy. The price we pay for that protection is that sometimes the market prices of our businesses are detached from the trajectory of their key drivers, which creates both opportunity and occasional consternation. Our focus on the long term is what allows us to capitalize on short term noise and compound investor returns. We took three such actions in the second quarter.

Commentary

There is always something to worry about. One key part of managing a portfolio is the ability to anticipate and position for the risks that matter, and to utilize the opportunities created by those that do not. In recent times, the question of the duration of inflationary effects has come to dominate market concerns. The worry is that increasing price and wage levels from base effect impacts of the COVID-19 pandemic (demand and price collapse in 2020 and pent-up demand and supply constraints for used cars, hotels, semiconductors, commodities, and labor) will become systemic. Should these transitory price increases become systemic, the fear is that the Federal Reserve will be unable to halt an inflationary spiral without collateral damage to the economy. While there are parts of this line of thought that we are tracking closely, we thought it would be useful to zoom out and articulate what we see as the more meaningful structural frameworks that are in place to drive potential investment opportunities.

The Silk Road was a network of trade routes connecting Eastern and Western worlds between 130 BC and 1453 AD. The significance of the Silk Road lies not in the mere existence of trade routes, but rather in the ways in which continents, people, and cultures were linked and ideas and innovations were disseminated. Technology such as paper, the waterwheel, gunpowder, and fixed type printing were promulgated to new frontiers, and technological and economic progress was at once made possible to those with the vision and ability to innovate. The ways in which the world became connected had exponential implications that no one would have predicted.

Johannes Gutenberg began commercial use of the printing press in 1452 AD. Gutenberg's invention was

based upon the technological building blocks provided by carved wood block printing that had been used in China's Tang Dynasty as far back as 868 AD. This seemingly simple linear progression of printing techniques had profound implications. The high throughput printing process lowered the cost of books to such an extent that the masses suddenly had access to books that were previously only available to the clergy and nobility. The availability of books caused many to develop a passion for reading. Reading made Europeans realize that they were farsighted, which created a new market for spectacles. A new market for spectacles led many to experiment with lenses, which led to the invention of the microscope. Experimentation with the microscope led to the discovery that organisms were made up of microscopic cells. A revolution in science followed, which led to the discovery of vaccines and antibiotics that would eradicate diseases and save millions of lives. The connectivity of people and the sharing of information enabled by the Silk Road facilitated the process of discovery and innovation that created the building blocks for world changing technological breakthroughs.

Human progress has historically come about in surges of transformation. A surge of transformation manifests itself when a significant new technology comes along, and innovators experiment and bring new applications of the technology forward. As new applications propagate, the true potential of the technology is unleashed. This process was proven true with mechanized industry and steam power in the First Industrial Revolution, electrification and assembly line production in the Second Industrial Revolution, and the microprocessor in the Third Industrial Revolution. In this millennium, the Information Age has revolutionized many industries, and the impact is spreading. We see several mutually reinforcing trends all working together to exponentially grow the implications of the Information Age.

Six billion smartphones provide a level of global connectivity that is without precedent. Instant connectivity and unlimited information are available to virtually anyone, anywhere, at any time. The significance of unlimited information and connectivity lies in the fact that every innovation throughout history was made possible by networks of other ideas. Without the conceptual and technical building blocks to enable an innovation breakthrough to be imaginable, the mind's ability to envision what is possible is restrained. Leonardo Da Vinci may have had the unique brilliance to imagine his Aerial Screw, but it took more than four hundred years' worth of human knowledge to accumulate before a working helicopter could be built. For any innovator, business, or problem solver, the sum of all human knowledge is only a smartphone away. The implication of this level of connectivity to this depth of knowledge is only just beginning to be realized.

Amara's Law refers to the phenomenon where one tends to overestimate the effect of a technology in the short run and underestimate the effect in the long run. Cloud computing strikes us as a prime example of this phenomenon. At its core, cloud computing is the simple ability to access unlimited computing power and software resources to store, manage, and process data in an easy, rapidly scalable, and cost-effective manner. The significance of cloud computing infrastructure is multitudinous, but perhaps most importantly it lies in the cloud's ability to enable the freedom to experiment. This freedom to experiment lowers the barrier to entry for entrepreneurs and innovators to test, iterate, and create new businesses and concomitant technological breakthroughs. Cloud computing infrastructure is akin to giving every tinkerer in past technological revolutions access to immediately scalable and inexpensive textile mills, steam engines, steel furnaces, moving assembly lines, and microprocessors. Providing the masses the freedom to experiment unlocks the potential of technological breakthroughs in ways that was simply not possible in past technological revolutions.

Digital transformation refers to the process of converting information from analog and siloed digital repositories to usable digital formats that allow organizations to execute processes to meet changing business, customer, and market requirements. To be competitive, businesses need important data to be

instantly accessible to inform and dictate strategic processes. Prior to Covid-19, the secular trend of digital transformation was stuck in the early innings due to bureaucratic entropy. The global pandemic acted as a catalyst for businesses to rethink how business practices should work. Digital transformation, when combined with the tailwinds provided by cloud infrastructure and growing connectivity set the stage to accelerate the rate of technological change.

Throughout history, a breakthrough in the ability to measure a phenomenon creates opportunities for stepwise innovation to fix old and new problems. This dynamic has proved true in everything from sound waves (sonar, radar), and lunar distance and time (longitude at sea, global navigation), to the density of bacteria (clean drinking water). Living organisms and organizations alike generate a prodigious amount of measurable data but technological barriers have historically limited the extent to which that data could be captured, analyzed, and applied. An apt historical corollary is the fact that Edwin Drake's oil well in Titusville, Pennsylvania did not have any meaningful impact in launching the Oil Age until advances in iron metallurgy and organic chemistry provided the technology and infrastructure to access the oil for productive uses. A technological breakthrough without the requisite infrastructure to enable its application limits any potential paradigm shifting impacts. As it relates to data, today there are mutually reinforcing innovations in mobile network speed and microprocessor efficiency that are combining with cloud computing and digital transformation to enable the extension of connectivity to measurable devices to apply the prodigious amounts of unstructured data generated daily. The infrastructure that enables the application of unstructured data is the prerequisite that enables artificial intelligence applications to train algorithms for productive use. As data feeds proliferate, mutually beneficial forces of more data, increasing computing power, and better artificial intelligence capabilities to train more precise algorithms enables insights to solve previously unsolvable problems. With an accelerating rate of change provided by the cumulative effects of the sum of human knowledge, the number and magnitude of technological changes are likely to make the societal effects prompted by the printing press look downright pedestrian.

Conclusion

With many focused on the question of inflationary pressures and related highly cyclical industries affected by the pent-up demand for a post COVID-19 reopening of the economy, we posit that the more interesting opportunities lie in the macro insensitive adoption curves enabled by increasing high-speed mobile connectivity, cloud infrastructure, digital transformation, more powerful microprocessors at the network edge, big data, and artificial intelligence. Like the printing press, the ultimate outcome of all of these interconnected complex adaptive systems have exponential effects difficult to conceptualize within the confines of our required parameters for forecast accuracy. What matters is that these structural frameworks are firmly in place to provide a fertile field for innovative businesses to be created and scaled. From this fertile field, there will be many high quality businesses that will compound shareholder returns at high rates for decades.

As always, business quality, unit economics, scalability of strategies, return on invested capital, duration of reinvestment runways, competence of management teams, and the path to earnings growth are the key determinants that dictate any investment that we make.

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

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