Dear Investor,

The Spree Capital Advisers Composite Index declined 25.28% in the first quarter of 2022.

Spree Capital Advisers Returns vs. Indices								
	2019	2020	2021	JAN	FEB	MAR	YTD	ITD
Spree Capital Advisers	25.27%	45.72%	-4.38%	-16.85%	-9.23%	-1.00%	-25.28%	30.42%
S&P 500 Total Return	31.49%	18.40%	28.71%	-5.17%	-2.99%	3.71%	-4.60%	91.20%
HFRI EH: Fundamental Growth Index	13.74%	24.71%	13.37%	-6.22%	-0.59%	-2.84%	-9.42%	45.66%
Barclay Hedge Fund Index	10.64%	11.14%	10.22%	-2.62%	-0.94%	0.62%	-2.94%	31.55%
Barclay Equity Long Bias Index	15.28%	16.31%	17.08%	-4.56%	-1.29%	1.00%	-4.84%	49.34%
Barclay Equity Long Short Index	6.59%	9.27%	10.65%	-0.96%	-0.56%	0.59%	-0.94%	27.69%

First Quarter 2022 Review

The first quarter of 2022 was punctuated by a continuation of the series of unprecedented events that has defined the last three years. Just as a period of trade wars, global pandemics, and global supply chain disruption was coming to an end, the largest military campaign since World War II caused the price of oil to nearly double, commodities had their best quarter in thirty years, and bonds had their worst selloff in forty years.

Throughout these events, our businesses continue to execute well on the key performance indicators that build revenues, scale earnings, and feed the engine of return on invested capital that drives shareholder value creation. Despite strong operating trends, the shunning of assets with duration in their growth profiles has caused market prices to materially decline. Steep price declines and strong business trajectories have created asymmetric investment opportunities, and when the storm clouds clear, high quality growing businesses will return to favor.

Commentary

Benjamin Graham is credited with the analogy of the market as a voting machine in the short term, and a weighing machine in the long term. With market participation now dominated by the noneconomic trading volumes of quantitative and high frequency traders, Graham's short term is measured in nanoseconds, and the voting changes instantaneously with the vicissitudes of real time information flow from a hyperconnected world. The effect of the unprecedented events of the last three years on this structural dynamic have caused the voting machine and the weighing machine to reach extreme levels of disconnectedness. We believe that a wind and current analogy is more appropriate.

A novice sailor concerns themselves with the direction of the wind. While knowledge of the direction of the wind may appear to offer an advantage to the navigator, the fleeting nature of wind offers little in the way of sustainable predictability. In today's market environment, the wind changes quickly and violently in all directions. Headlines seeking attention, clicks, and advertising dollars are unparalleled in their ability to spread fear and create volatility. However, investors and sailors alike err when taking the current direction of the wind and extrapolating it linearly. This dynamic is as true today in certain subsectors as it was with early-stage work from home beneficiaries during the Covid-19 pandemic.

An expert sailor focuses on the current. While the winds are always changing, currents are persistent. When the navigator gets the current right, it overtakes the wind any day, and the gains compound over time. The difficulty lies in the fact that the wind is known and attracts all the attention, and the current is sometimes only fully understood by all with the benefit of hindsight. The sailors and investors that adeptly navigate storms are those who are always mindful of the direction that the wind is blowing but understand the current and the duration of its tailwind such that they do not let the latest gust push them off course. Today, our businesses are benefiting from many currents that act as tailwinds. Of course, the inflation storm is forcing news headlines to thrash violently upon market prices. In this storm, the market is shunning duration in favor of assets with short term earnings, regardless of the power and trajectory of the earnings stream. Like any storm, the tempestuous action will clear, and business quality and revenue and earnings growth will again drive shareholder return. Of paramount importance in the clearing of the inflation storm are the four squalls of commodity prices, supply chains and aggregate demand, interest rates, and the risk of recession.

Commodity prices have surged on the narrative of cyclical reopening demand, Russia and Ukraine's oil and agricultural commodities moving offline, and the green energy transition necessitating demand growth for metals such as copper, lithium, and nickel. The fear driving the commodity squall is that there will be shortages that will lead to persistent inflation. We have lived through many of these fears before. During China's industrialization, the prevailing narrative was of the Malthusian view that surging commodity demand and global population growth would cause widespread shortages and sustained inflation. It is tempting to adopt this linear view that ignores the history of human ingenuity and technological advancements. Thomas Malthus himself was steadfast in his belief that unrestrained population growth would cause the world to run out of food, despite the fact that he had a front row seat to the transformative power of mechanized industry and steam power during the industrial revolution. Throughout history many have held similar such views on everything from wood in the 16th century, coal in the 19th century (William Jevons "The Coal Question" in 1865), oil in the 20th century (M. King Hubbert's "Hubbert's Peak" in 1956), to many commodities today. Whether it was from scientific forestry, innovation in the productive uses of oil, advancements in drilling capabilities, or the steady march of technological progress driving efficiency gains, human ingenuity has always solved problems in ways that a scarcity view failed to incorporate. Today we have cyclical reopening demand and supply chain constraints that caused price spikes and scarcity fears. Linearly extrapolating the recent direction of the wind while ignoring the 100+ year current of technology and productivity gains driving deflation in commodity prices to the tune of 1.5% per annum is betting that "this time is different". We concede that the underinvestment and de-capacity in certain commodity subsectors following the last commodity bust have created supply bottlenecks, but point out that rising interest rates, 20-year highs in the dollar, demand destruction, and the inevitable supply response have an equally countervailing effect. More importantly, believing that commodity prices will lead to prolonged inflation fails to incorporate standard human ingenuity on top of information age breakthroughs that drive advances in the speed and efficiency of innovation, making it a bet against the forces that have shaped the modern world. If these forces have irreparably shifted and "everything that can be invented has been invented" (Charles H. Duell, Commissioner of US Patent Office, 1899), our businesses have pricing power and toll road dynamics that enable them to earn inflation protected royalties. If historical fact patterns prove true this time again as we suspect, the storm will clear and high quality businesses with growing earnings will return to favor. In the meantime, our businesses continue to grow in excess of 20% per annum and have outlooks as good or better than when we first invested in them.

The second squall in the inflation storm results from the surge in aggregate demand and collapse in aggregate supply. Pandemic induced demand shocks, slashed orders, unprecedented consumer stimulus, surging durable goods demand, locked down factories and fractured transportation networks caused inflation to rise from 1.40% to 8.54% over the last 15 months. While in the midst of this storm, it would be easy to confuse the surging demand and supply chain stress as a secular current. This view neglects the fact that the initial surge in consumer demand traveled upstream through supply chains as retailers, wholesalers, and manufactures over ordered to ensure they had sufficient bumper stock. Just as warehouses were restocked with “just in case” inventory, the effects of fiscal and monetary stimulus effects are fading. Tightening financial conditions from Federal Reserve posturing have recently been exacerbated by surging energy prices, which on their own act as a deflationary tax. Increasing aggregate supply and decreasing aggregate demand make the argument for incremental inflation questionable. Incorporating base effects such as the 45% year over year surge in used car prices now rolling off further tips the scale. Our businesses have not been materially affected by the surge in aggregate demand and pull back in aggregate supply and are unlikely to be materially affected by the normalization, but the overhang from the inflation spike and rate fears have materially pressured market prices. While it is always frustrating to wear negative returns, a situation where prices have declined materially while the businesses are successfully executing represents an asymmetric opportunity in a normalizing economy.

The third squall in the inflation storm is the direction of interest rates. Since inflation began ticking up in March of 2021, market expectations for interest rate hikes have surged as investors have capitulated on the view that inflation is transitory. The linear extrapolation of pandemic effects and the energy price surge neglect the fact that “We probably remain in an era of very low interest rates” (Jerome Powell, January 11, 2022). Overindebted global economies suffer from low growth, low velocity of money and are so accustomed to low interest rates that any sustained increase in rates slows the economy. The sudden increase in Federal Reserve jawboning over the last four months with only one official interest rate hike is doing this work for the Federal Reserve as they wait for supply chains, labor force participation and softening demand to bring inflation down. With the market already pricing in ten interest rate hikes in 2022, very little has to go right on this front for rate hike expectations to be reset. The businesses that we own have revenue and earnings growth profiles that are independent from the vicissitudes of GDP growth. While this means that they can be out of favor during cyclical surges such as the one we are currently in, our businesses are executing with well positioned growth drivers that offer asymmetric return profiles when the rate storm clouds clear.

The fourth and final squall in the inflation storm is a recession. After steepening in 2020 and early 2021, the yield curve has since flattened to the point of briefly inverting. Coincident to the steady flattening, fears over the near doubling of oil prices in the first quarter have added concerns that the energy price shock will trigger a recession as it did in 1990, 2000, and 2008. With such fear priced in to the market, many are ignoring the fact that lags in monetary policy do not have the length and variability that have characterized the past. Financial conditions change based on expectations of things happening, and as with all transmission mechanisms nowadays, that happens almost instantaneously. The constant jawboning by the Federal Reserve since December 2021 has tightened financial conditions significantly. We have no doubt that a slowdown will come, but investor pessimism is at extremes, and any investment with duration has had material price declines that are in some circumstances out of sync with the performance and trajectory of the business. As time has shown, more investor capital has been lost preparing for recessions than is actually lost in them, and we expect this time to be no different. Our businesses are chosen in part for their ability to grow revenues throughout the cycle. Revenue growth and scalable earnings feed a long runway of high return on invested capital opportunities to support high rates of shareholder returns over the long term. When a recession does come, our businesses have strong balance sheets and revenues with secular demand profiles that enable them to be net beneficiaries as weaker subscale and capital market dependent competitors fall by the wayside.

Conclusion

The last three years have been a nonstop series of storms that have spread fear and created volatility.

Despite the constantly changing winds of worry, high quality businesses creating or harnessing a sustainable current have been able to sail through them all. In the midst of trade wars, global pandemics, lockdowns, and most recently, a war and commodity and inflation surge, our businesses have been able to grow revenues and earnings at a 26% CAGR and 53% CAGR, respectively. With inflation likely having just peaked in March at 8.54%, we are finding many opportunities in great businesses with asymmetric return profiles. By focusing on the business and being mindful of the wind, we will continue to use such opportunities to compound investor capital over the long term.

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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