Dear Investor,

The Spree Capital Advisers Composite Index advanced 12.76% net of fees in the fourth quarter of 2019 and 25.27% net of fees in the calendar year 2019.

Spree Capital Advisers Returns vs. Index													
	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	YTD
Spree Capital Advisers	14.6%	4.53%	1.96%	9.72%	-9.59%	1.50%	-1.22%	-1.77%	-6.92%	9.48%	0.50%	2.48%	25.27%
S&P 500 Total Return	8.01%	3.21%	1.94%	4.05%	-6.35%	7.05%	1.44%	-1.58%	1.87%	2.17%	3.63%	3.02%	31.49%

2019 Review

Spree Capital Advisers launched on January 1, 2019 amidst market turbulence created by fears of the Federal Reserve raising interest rates, a flattening yield curve signaling an impending recession, and escalating trade wars threatening to reverse the globalization paradigm that has defined the last thirty years. A stock market rally in the first quarter led to volatility in the second quarter after President Trump abruptly raised tariffs on imports from China. A rotation into defensive sectors followed in the third quarter, which was punctuated by trade war escalation and a growth and value factor unwind. The fourth quarter saw an equity market rally on a truce in the trade war and on expectations that the European Central Bank and the Federal Reserve would ease monetary policy. Throughout the turbulence and constantly changing narrative, we focused on the big picture while following our process: find and monitor great businesses, and then wait for the market to offer attractive investment opportunities. This manifested in buying activity and outperformance in the first quarter, underperformance, good opportunities and buying activity in the second and third quarters, and outperformance and buying activity in the fourth quarter.

As we enter 2020 and look ahead to the upcoming November election, we believe that President Trump is likely to try to further boost stock prices by executing additional phases of trade deals, a capital gains tax cut, and less likely, an infrastructure spending deal. With business inventories returning to manageable levels, curtailed capital expenditures normalizing, and stimulative monetary policy and the potential for stimulative fiscal policy, we are encouraged by the near-term outlook, but we are working to find great businesses at reasonable valuations. We are mindful of the risk that reflation could become inflation as some of our internal market indicators have suggested, and the risk that this could upset the current economic machine that is supported by easy monetary policy enabled by negative real interest rates. While we believe that outright predicting inflation is in aggregate a losers game due to the prevalence of false signals in money velocity and the questionable accuracy of productivity measurements in the information, communication and technology sectors; if and when inflation does return, the asset light, royalty nature and pricing power of our businesses help to protect the portfolio. In the meantime, we continue to research and invest in great business models with scalable operating leverage, supported by long term secular tailwinds, long runways to reinvest in high return on invested capital opportunities, and growing competitive advantages.

Our Undiscovered Compounder strategy contributed 11.31% to our 12.76% net return in the quarter and contributed 18.44% to our 25.27% net return for the year. This strategy consists of great businesses led by proven management teams with clearly defined strategies to maximize shareholder value. We exited our investment in Alarm.com at a negligible loss but reasonable lost opportunity cost, as key performance indicators were not meeting the baseline requirements for our thesis, and we accordingly reallocated funds to several other businesses, three of which are discussed below. Our Undiscovered Compounder watchlist currently has fifty-three businesses in the funnel, not including the investments we made in the quarter.

Our Value with a Catalyst strategy contributed 1.45% to our 12.76% net return in the quarter and contributed 6.83% to our 25.27% net return for the year. This strategy, which consists of good businesses with near term catalysts to rectify the misperception that depresses the valuation, provides ballast to the portfolio from factor betas that temporarily impact the core Undiscovered Compounder strategy. The opportunity set in this beta hedging strategy has been limited lately, and our Value with a Catalyst watchlist currently only has eight businesses in the funnel.

Undiscovered Compounders

Rosetta Stone (RST)

In the fourth quarter we invested in Rosetta Stone (RST). In Rosetta Stone, we see a historical fact pattern that has generated outsized returns for us in the past. In 2016, a new management team acted like business owners and made the difficult decision to fundamentally change the product portfolio and go to market strategy as they repositioned the business from one that sold CD based language learning products to one that sold educational software to primary, middle, and secondary school customers. This repositioning entailed divesting assets that did not contribute to competitive advantages and investing in future growth through the income statement by means of Research & Development spending to build new products, and SG&A spending to shift the go to market strategy from channel selling to a direct sales force. This margin pressuring investment spending occurred in conjunction with a revenue pressuring move from a perpetual license business model to a software as a service business model. The combined sales and margin pressure resulted in quantitative pressure on earnings and valuation, which obfuscate underlying qualitative improvements in the competitive advantages inherent in the business model. What we are left with in Rosetta Stone is a legacy Consumer Language business that is now a subscription software business with subscribers growing twenty one percent year over year, an Enterprise and Education Language business that has funded significant investment in a new product with a strong product market fit, yet with corresponding revenue that will not hit the income statement until 2020, and a K-12 Literacy (Lexia) educational software business nearing an inflection in profitability. As we have experienced in other situations, when a software company moves from a perpetual license revenue model to a subscription based revenue model and aggressively front loads investment in product development and customer acquisition costs while the recurring revenue (and bulk of the customer lifetime value) remains back end loaded, and then when accelerating revenue growth coincides with growing margins from a highly scalable business model, the resulting shareholder returns are significant. With every business we invest in, we look for multiple ways to win. In Rosetta Stone, we see three.

First, Rosetta Stone's K-12 language learning segment (Lexia) is in the land grab stage in which the goal is to drive penetration of the Core5 literacy product. From a current footprint in fourteen percent of US public schools, the actual district footprint represents forty percent of US public schools. By simply expanding to the schools within the districts where Lexia already has an existing presence, Lexia can triple its school footprint. In district penetration growth is supported by the strong product-market fit of Core5. Sixty four percent of fourth grade students do not read at their grade level. The cumulative effect of falling behind in literacy makes these students four times more likely to be among the seven thousand students who drop out of high school every single day. Despite a widely recognized need for improving elementary literacy, teachers do not have the resources they need to meet the needs of every student in the classroom. Lexia solves the complex challenge of reducing the time-consuming nature of collecting and interpreting student strengths and weaknesses, which then helps teachers identify student need, and prioritize their time and efforts. As individual teacher use cases grow, in district penetration growth and new district expansion is fueled both by Lexia's ability to collect efficacious data to demonstrate student progress against a district's measure of choice, and by a peer effect of principals and teachers talking to other principals and teachers. An established footprint then becomes the distribution channel through which Rosetta Stone can push new products onto the Lexia platform.

Second, Rosetta Stone's K-12 Literacy business is an emerging platform with a long runway for organic growth. Historically, Lexia's business consisted of selling a single vertical product, Core5, to elementary schools. Lexia then expanded to PowerUP, a literacy product in the early innings of penetrating the middle and high school market opportunity. The next product extension on the Lexia platform is the English Language Learning program. English Language Learning is the result of the largest investment in Rosetta Stone history, satisfies a significant need, and the associated revenue will not hit the income statement until the product launches in the 2020 school season. Lexia's English Language Learning product addresses the ten percent of public-school students that are nonnative English speakers, a population that is set to double in the next five years. In addition to providing Lexia with the first upselling opportunity at the school level, the English Language Learning product makes Lexia more engrained in school curriculums, which raises switching costs while opening Lexia up to more federal, state, and local funding.

Third, secular tailwinds support growing educational technology end markets. Software is taking over most all industries, but it has not happened yet in educational technology. Changing US policy as shown in the 2020 National Educational Technology Plan acts as a catalyst to push educational technology along the growth curve to foster greater adoption in the classroom. As federal policy encourages grant funding for the use of technology to improve and personalize learning resources for students, Lexia stands to benefit from the scalability of their business model and generate outsized return from increased demand. Changing federal policy supports long term growth, but also near-term opportunity as Lexia moves seventy percent of the existing Core5 school customers from seat licenses to whole school licenses. Each successful contract change increases ARPU by three hundred percent, and full conversion more than doubles annual recurring revenue. As educational technology software use grows, Rosetta Stone's scalable business model presents a significant opportunity to compound earnings growth over the long term.

As investors in Rosetta Stone, we get these three paths to value creation while owning a business with inflecting unit economics, a long runway to leverage high margin products across growing demand, and the competitive advantages that a closed customer feedback loop and established distribution channel provide in cross selling and up selling opportunities.

<u>Ferguson PLC (FERG LN)</u>
Ferguson is the leading North American specialist distributor of plumbing and heating products and waterworks and fire fabrication products. Specialist distributors such as Watsco, Fastenal, and Pool Corp have compounded shareholder value at more than twenty five percent per annum over three decades due to industry fragmentation, long runways for accretive tuck in acquisitions, and competitive advantages that come with densification and scale benefits. Ferguson has all of these strengths, but what makes Ferguson unique is that despite now having all of its business in North America, the stock is listed in the United Kingdom and is owned primarily by non-US investors. This dynamic has created a valuation discount to peer Repair, Maintenance and Improvement (RMI) businesses in excess of fifty percent. We believe this technically driven valuation discount is set to change in 2020. With any business we invest in, we look for multiple ways to win. With Ferguson, there are three.

First, Ferguson is nearing completion of a decade long simplification of the business. This simplification entailed exiting twenty-five countries and thirty business units that lacked industry leading market share and the subsequent competitive advantages. What remains is a stronger, more focused market leader in North America specialty distribution. However, due to the legacy business footprint, Ferguson is still listed in the United Kingdom and generally not known or held by US investors. We believe that the board of director's ongoing review of the company's listing will result in a relisting in the United States and create upwards of fifty percent near term pricing appreciation as investors learn about the quality and growth outlook of the business. This is not a requirement for our investment, as we are happy to own the business for the long term whether or not it relists on US stock markets, but the asymmetric risk reward profile offers an attractive free option on near term price appreciation.

Second, as Ferguson management shifts its focus from simplifying the business to improving the core business, we believe they will build on the fifteen tuck in acquisitions completed last year as they continue to consolidate a highly fragmented industry. Ferguson's proven, repeatable process for identifying, executing, and integrating tuck in acquisitions spins the flywheel which supports market share growth, scale advantages from purchasing power, product availability, route density, technological superiority, and vendor rebates, which grow the margin advantage over peers. Higher margins are then partially reinvested into superior services favored by Ferguson's trade-oriented customer base. Superior products and superior services then help Ferguson grow its market share from an industry leading high teens to upwards of forty percent, in line with other best in class distributors.

Third, as Ferguson's market share scales, there is a greater opportunity to move up the value chain and expand their private label product offering. As the private label product offering is expanded, customers are afforded a greater choice at better prices, and Ferguson receives a higher gross margin.

Ferguson's three paths to value creation are supported by a high return on invested capital business with sixty percent of sales to non-discretionary end markets, and a commercial customer base that favors convenience over price due to a purchase process determined by labor efficiency. We are happy to be long term shareholders of Ferguson, even if only two of the three value drivers come to fruition.

Match Group (MTCH)

In the fourth quarter, we used an earnings-related selloff to invest in Match Group (MTCH) ahead of several near-term catalysts and several long-term paths to value creation. We view Match Group, and its portfolio of brands (Tinder, Match, PlentyOfFish, Meetic, OkCupid, OurTime, Pairs, Hinge, Chispa, BLK, Harmonica) as a toll road on global relationship building; a blue ocean strategy in many countries with vast monetization opportunities in all countries. With any business we invest in, we look for multiple ways to win. In Match Group, we see six.

First, we believe that Match Group's valuation is depressed due to both technical and quantitative fundamental reasons. On the technical side, Match Group's status as a controlled company that is 81% owned by InterActiveCorp (IAC) creates a roadblock to an appropriate valuation. Specifically, Match Group's controlled company status and low share float prevents the stock from being included in the S&P 500 index and prevents most institutional investors from making meaningful investments. An upcoming spin off to InterActiveCorp shareholders in the second quarter of 2020 will remove this roadblock, while also providing opportunities for stock buybacks of a meaningfully undervalued equity. On the quantitative fundamental side, Match Group is underearning on today's revenues due to elevated legal costs and elevated product and marketing spend. On the legal cost side, elevated near term costs represent a two-percentage point hit to EBITDA margins that will run off in 2021. Despite temporarily elevated legal costs, Match management is acting like owners and investing in the business to build upon its lead in order to capture a large global white space opportunity ahead of the eventual monetization opportunity. Predictably, the market focuses more on backwards looking quarterly earnings as opposed to looking through to Match's proven ability to generate meaningful revenue growth.

Second, Match Group has a repeatable business model with a proven ability to create value as it expands upon several global first mover advantages. Match Group has consistently proven its ability to take an institutional knowledge of dating products to either create platforms internally or to identify and invest in local teams and then provide them with resources to create a first mover advantage that scales. A corporate office provides centralized resource sharing from operational functions (ad sales, online marketing and technology), to talent development (deploy talent to meet specific needs of portfolio companies in specific geographies expeditiously) to analytics (leverage data for product and marketing success to rapidly scale a network effect competitive advantage) to administrative functions (legal, trust, privacy, human resources, financial) to engineering resources (tech infrastructure, product localization). When it comes to a fast-growing industry where network effects matter, offering the best product that can scale quickly is of paramount importance. As we have seen from competitors, the competitive constraint is not building the dating app, it is getting the app to scale and capture network effects. Scaling a network effect driven product is difficult, and Match Group's ability to consistently do that is a meaningful competitive advantage.

Third, Match Group is a model driven business that supports its own platform disaggregation. One thing we look for in model driven businesses revolves around their ability to apply continuously learning models to closed loop information streams. When executed well, these continuously learning models create a flywheel where the product gets better, gets more users, collects more information which enables faster adoption to user needs, which creates a better product. On the disaggregation side, platforms typically follow a historical fact pattern in which a platform develops as a mass marketplace, and as market niches develop, traffic is pulled away to the niche product focused upstarts that do a better job of servicing specific needs. With Match, we believe an opposite dynamic occurs. As niche use cases develop, Match has shown a proven ability to take the closed loop feedback mechanism to identify, cultivate, and grow products that better serve specific user needs. Dating means different things to different people. As some groups churn off mass market apps such as Tinder due to differences in demographics, geography, religion, or other specific goals and needs, Match Group uses a brand portfolio strategy in which it offers products that apply to a broad spectrum of singles. Match Group then uses superior resources and learning curve competitive advantages to incubate and cultivate concepts that feed the infill opportunity to cater to underserved segments of the singles population

Fourth, Match Group products have a user base that is underpenetrated globally and is supported by significant long-term secular tailwinds. Of the six hundred million internet connected singles in the world, sixty-five percent have never used a dating product. Over seventy percent of the countries in Match Group's addressable market are at dating app usage levels that the US and Europe were at ten years ago. As global access to high speed internet grows, and the category stigma of online dating erodes, dating app usage will look a lot closer to the ninety percent penetration level inherent in travel app usage than the current thirty percent penetration level inherent in dating app usage. When one considers that Tinder alone has quickly become a global platform enabling over one million dates per week without any localized product modifications to account for specific geographies and cultures, it is not hard to see how large the user growth opportunity is with just modest localization refinements and marketing spend to grow awareness. The vast global opportunity that Match Group has is particularly attractive in India, APAC and MENA. These regions benefit from the urban migration of young, educated, mobile internet connected rising middle-class consumers who are increasingly active in choosing their own partners. As Match Group executes on its repeatable process of building platforms, the branded portfolio strategy has a long runway to capture a meaningful share of this secularly growing market.

Fifth, Match Group has barely scratched the surface of the monetization opportunity that they have ahead of them. The low revenue flow through in relation to user trends is due to the fact that Match Group is currently in the land grab phase of the growth curve and is thus focusing on optimizing the user experience and growing users. Match Group's proven success in product innovation (SHIP, Ablo, Super Boost, Read Receipt, We Met), provides a long runway of a la carte and consumable products across all products globally. When one considers the lengths at which rational and irrational males of all species go to accentuate their charms to attract mates (mating dances, courtship displays, plumage, large antlers, birdsong, not to mention the irrationality of humans), or that a generation of kids has grown up spending their allowances on the signaling mechanism of virtual goods in video games, can anyone rationally argue that the earnings power of a central nexus on relationship building is limited to the $0.59 ARPU on brands where Match Group actually monetizes? We realize this multidisciplinary point includes more than a bit of hyperbole, but we stand behind our research and view that customer willingness to pay is significantly higher than current ARPU, and that Match Group has meaningful room to flex pricing power across all of its brands.

Six, Match Group is likely to follow the historical fact pattern of past new technological innovation in which an application inspires infrastructure, and then that infrastructure supports platforms. As a central nexus of online dating that sits in the center of the payment flow, Match Group's ability to extract economics while providing revenue to the suppliers of the post-match experience (event tickets, meals, drinks, grooming and beauty products, information insights) is significant.

With Match Group effectively owning the dominant toll road on dating, we are happy to buy this business at a depressed valuation relative to earnings power, with a near term catalyst and a long global runway to grow users and monetization across a highly scalable business model.

<u>Conclusion</u>
2019 was a year with constantly changing narratives, and many opportunities for investors to get shaken out of investments over fear created by temporary market concerns. 2019 was also a representative sample of our process at Spree Capital Advisers. We focus on finding, vetting, and tracking great businesses with secular tailwinds and long runways to reinvest cash flows in high incremental return on invested capital opportunities, and we wait until short term confusion creates opportunity for long term compounding. Our long term focus and tax efficient approach means that we sometimes have to wear short term losses on existing positions suffering from short term confusion, but our focus on great business models with multiyear runways to scale means that our opportunity set and activity tends to increase in such times.

As we look out to 2020 and to the upcoming November election, we are encouraged by the near term outlook, but with upwards of ninety percent of the broad market return in 2019 coming from multiple expansion, we are fully cognizant of the fact that there will be unknown unknowns that will cause market pressure. Risk is what one does not see, and the work that we do every day is to prepare for opportunities when great businesses are offered at discounted valuations based on transitory market pressures. We are optimistic that our process will continue to prepare us for upcoming opportunities that will result in a high batting average, a high slugging percentage, and a healthy outperformance in the coming years.

We thank you for your continued confidence in us as the stewards of your capital.

Sincerely,

Thatcher Martin, CFA

SPREE CAPITAL
ADVISERS

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