



Dear Investor,

The Spree Capital Advisers Composite Index advanced 38.38% net of fees in the fourth quarter of 2020, and 45.72% net of fees in the calendar year 2020.

Spree Capital Advisers														
Returns vs. Indices														
	2019	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	2020
Spree Capital Advisers	25.27%	-4.66%	-10.10%	-17.42%	10.79%	9.42%	2.08%	19.17%	2.56%	-1.63%	0.14%	23.85%	11.57%	45.72%
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%	-2.66%	10.95%	3.84%	18.40%
HFRI EH: Fundamental Growth Index	13.74%	-0.53%	-2.63%	-9.72%	7.17%	3.85%	3.42%	4.79%	3.65%	-2.07%	0.59%	8.44%	6.21%	24.01%
Barclay Hedge Fund Index	10.64%	-0.18%	-2.84%	-9.16%	5.37%	2.67%	2.17%	2.68%	2.39%	-0.70%	-0.11%	5.76%	3.33%	10.99%
Barclay Equity Long Bias Index	15.28%	-0.77%	-5.05%	-12.02%	8.16%	4.10%	2.28%	3.60%	4.25%	-1.43%	-0.85%	9.94%	4.85%	16.16%
Barclay Equity Long Short Index	6.59%	-0.67%	-2.21%	-6.04%	4.58%	1.65%	0.90%	1.81%	2.12%	-0.76%	-0.12%	4.54%	3.39%	9.04%

## 2020 Review

The calendar year 2020 was a year best viewed in the rear-view mirror. The year began with the resolution of a trade war and the adjournment of a presidential impeachment probe. These notable events were quickly eclipsed by a spreading global pandemic, government mandated economic shutdowns, and the disbursement of significant monetary and fiscal stimulus. Businesses with long term secular tailwinds had certain barriers to adoption eliminated as changing habits encouraged consumer acceptance, while other businesses with preexisting comorbidities of fixed cost leverage and financial leverage suffered meaningful impairment. Through it all scientists, teachers and healthcare workers performed miracles for which we all owe our eternal gratitude.

As we look ahead in 2021, we see a variety of potential scenarios that we are closely tracking. Regardless of which scenario ultimately comes to fruition, businesses with long term secular tailwinds, strong balance sheets, superior management teams, and long runways to use internally generated cash flow to reinvest in high return on invested capital opportunities are insulated from long term impairment. Of course, as in any year, there will be transitory price pressures. The work we do every day prepares us to capitalize on such opportunities.

Our Undiscovered Compounder strategy accounted for substantially all our net return in the quarter and year. In the fourth quarter we added to several positions, two of which we discuss below. In our on-deck circle, our Undiscovered Compounder watchlist currently has sixty-four businesses in the funnel.

Our Value with a Catalyst strategy contributed negligibly to our net return in the quarter and year. We continue to avoid merely “good” business models and are finding few value with a catalyst situations that pass our standards for inclusion. Currently, our Value with a Catalyst watchlist has four businesses in the funnel.

### Cardlytics, Inc (CDLX)

Early in the fourth quarter we used the opportunity created by investor concerns over pandemic related pressure on footfall trends and supply chains to add to our position in Cardlytics (CDLX). Cardlytics is a financial technology advertising business with a closed loop purchase intelligence platform that solves the fundamental problems that all marketers face; lack of insight into customer purchasing behavior, lack of insight into non-customer purchasing behavior, and an inability to measure the performance of marketing campaigns. After spending the last 13 years partnering with more than 2000 financial institutions and

stitching together a closed loop platform, Cardlytics has effectively consolidated the market for purchasing intelligence. Within the Cardlytics ecosystem, network effects reinforce symbiotic benefits to all three parties: financial institutions, bank customers, and advertisers. Financial institutions benefit from advertiser funding turning their rewards programs from cost centers into profit centers. The funded rewards center lowers customer acquisition costs and creates higher lifetime value customers who are more digitally engaged, attrite less, and spend more on their credit and debit cards. Bank customers benefit from rewards and incentives to save money on their purchases. Advertisers receive attractive returns on marketing campaigns driven by their ability to accurately forecast customer purchasing behavior and by their ability to track the real time change in customer purchasing. With the 13-year long phase of building and integrating the core technology platform now complete, the hard work has been done. The next stage involves layering advertising spend on top of the scalable infrastructure that supports Cardlytics's 161.6 million monthly active users. We see six steps in the path to shareholder value creation.

First, Cardlytics is evolving to become an always on self-service offering. Currently, Cardlytics's go to market strategy utilizes a high touch sales process to sell advertisers on 45-day marketing campaigns. The customized white glove sales strategy was by design. In creating a new market of purchasing intelligence driven rewards, Cardlytics had to first establish standardized guidelines for its 2000 financial institution partners to follow. The recent integration of JP Morgan Chase and Wells Fargo as partners provided the requisite scale for Cardlytics to fully standardize industry guidelines and move away from individual approval of marketing campaigns. In automating the self-service offering, Cardlytics clears the way to scale the platform to unlock new demand opportunities. New demand opportunities will accrue from advertising agencies after the first quarter 2021 launch, and small and medium sized businesses in 2022. Advertising agencies are currently beta testing the self-service offering, and Cardlytics is building customized analytics functionalities that cater to agency specific requirements. With agencies accounting for half of the \$129 billion US digital advertising spend market, enabling agency use represents a meaningful revenue growth opportunity. Small and medium sized businesses will contribute to revenue growth in 2022. Cardlytics has a de facto sales team of 2000 financial institution partners with teams of relationship bankers that call on small and medium sized businesses daily for their banking needs. An always on, self-service, fully automated platform where small and medium sized businesses can promote their businesses is an easy, low friction cross sale for relationship bankers to make and benefits all parties in the ecosystem.

Second, Cardlytics is expanding into new industry verticals. The evolution of Cardlytics's advertiser base follows the evolution of the data feeds that until recently consisted mainly of debit card purchasing intelligence. Cardlytics capitalized on the opportunity provided by the Durbin Amendment of the Dodd Frank Act in 2010 to sign partnerships with banks that were left without payment network debit interchange fees to fund their rewards programs. By offering to bring customer rewards based on how bank customers spend with advertisers funding the rewards programs that payment networks no longer were, Cardlytics was able to consolidate the market for debit card purchasing intelligence. With the recent integration of JP Morgan Chase, Cardlytics added the largest credit card portfolio in the United States onto its platform. The expansion of credit card reach opens Cardlytics to new verticals where credit card usage accounts for much of the purchasing mix including travel, entertainment, direct to consumer, e-commerce, and luxury goods. Coinciding with the industry verticalization targeting enhanced credit card purchasing intelligence data, a specialization of the sales force is replacing the previous method of generalists calling on advertisers, creating a more effective on ramp to layer industry specific advertising spending on top of the platforms' scalable infrastructure.

Third, the always on self-service platform and strengthened industry verticals combine with offer presentation optimization to increase user engagement of the 161.6 million monthly active users. The

current user interface consists of simple corporate logos and short form text yet generates a return on advertising spend more than ten times greater than other digital advertising options. Cardlytics has a long tail of opportunities in the way of animated graphics, short format videos, location and time-based offer alerts, and improvements in the presentation hierarchy to optimize offer presentation and improve the customer experience. As the closed loop data stream of pre campaign and post campaign purchasing intelligence grows, the precision with which Cardlytics' machine learning algorithms can target advertising to improve user engagement and increase an already best in class return on advertising spend only grows.

Fourth, Cardlytics has a meaningful opportunity to tap latent pricing power to grow average revenue per user. Currently, all advertisers are charged in the same way, without reference to their willingness to pay. This means that businesses with customer acquisition strategies driven by customer lifetime value (Airbnb) are charged the same way as businesses seeking to drive traffic in a low margin, frequent use manner (McDonalds). As Cardlytics advertiser base grows and incentive presentation quality improves, the scale benefits of more data from the increased velocity of offers and redemptions enable more precise optimization of customer targeting, and growing advertiser pricing based on the value provided to the advertiser. In time, Cardlytics will scale an average revenue per user temporarily depressed by recent bank onboarding towards upwards of a low double-digit mature run rate.

Fifth, as industry vertical and advertiser penetration grow, user engagement and average revenue per user growth are layered on top of a low fixed cost business with high incremental margins and significant operating leverage. Current margins do not reflect the earnings power of the business because they reflect the upfront costs inherent in the multiyear bank onboarding and integration process. Investments in sales and marketing, research and development, and implementation and support are largely onetime costs as new advertising volume requires minimal incremental costs. As the number of advertisers increase, engagement and ARPU growth drive meaningful margin expansion on a business infrastructure built for over 200 million monthly active users.

Sixth, Cardlytics offers optionality inherent in ancillary product initiatives. This opportunity exists in three main avenues. One, Cardlytics' purchasing intelligence data lends itself to a subscription offering for bank customers. Amid the Covid-19 pandemic when short cycle advertisers decreased their spending, Cardlytics used data analysis to help advertisers understand when and where spend was returning. While this data analysis is currently offered for free to provide a funnel for acquiring customer spending, a subscription offering to cover the nominal fixed costs and to help support campaign purchasing frequency, while the usage-based model drives marketing campaigns is a strategy that benefits all members of the ecosystem. Two, Cardlytics is likely to acquire and establish partnerships with businesses that will combine Cardlytics' scaled transaction level data with SKU level data. With these new media and data ingestion capabilities, Cardlytics provides a stronger value proposition for when they call on the consumer brands that represent half of the advertising market. Three, Cardlytics is making inroads into a meaningful opportunity to provide the backbone powering a shift to Open Banking. Under Open Banking, consumers own their transaction data, and with a simple click enabled permission grant, APIs can access transaction data. As Open Banking spreads across the UK, Australia and Japan, Cardlytics has a natural on ramp to go to institutions with large customer bases (grocery, retailers, telecommunications firms, airlines) and onboard the Cardlytics platform. Cardlytics then can do what it does best: process transaction data, clean it, make it usable, and help partners monetize their data to drive sales. These three avenues of ancillary product initiatives all provide longer tail shareholder value creation opportunities.

In Cardlytics, we have a first mover that has consolidated the market for financial institution customer purchasing intelligence data to stitch together a fragmented banking system into a single portal for

advertisers to reach customers at scale. Ecosystem partners including financial institutions, bank customers, and advertisers all individually drive the flywheel of new advertisers, increased incentives for bank customers, increased engagement, more financial institutions and increased purchasing intelligence scale to create a more valuable platform for all. In Cardlytics, we see a strengthening moat around a scalable business model with high incremental margins in the early innings of compounding shareholder value.

### **Upwork Inc. (UPWK)**

Early in the fourth quarter we meaningfully increased our position size in Upwork (UPWK). Upwork is a global employment marketplace that enables businesses to vet, hire, and manage talent as part of their distributed workforce. Upwork facilitates labor and demand side connectivity on a global scale by providing the infrastructure to create trust and to streamline talent sourcing, contracting, analysis and payment. Freelancers benefit from having a reputation ranking system that feeds their marketing channels, allowing them to have access to quality, flexible work and on time compensation. Businesses on the demand side benefit by having extensive access to specialized talent, enabling faster and more cost effective hiring, and by having the strategic optionality inherent in the ability to flex a portion of their workforce based on changing demand requirements.

Labor markets have long had unnecessary frictional inefficiencies driven by regional talent imbalances and long-term trends of increased specialization of labor and declining labor mobility. Meanwhile, innovations in communication and global connectivity have transformed the way work gets done. Knowledge workers seek the flexibility and geographic advantages of on demand work, but the barrier to adoption has historically been established habits and work standards on the demand side. The Covid-19 global pandemic has broken down those barriers. We see three steps in the path to enterprise usage and shareholder value creation.

First, Upwork is reducing frictional barriers to on demand labor adoption on the demand side by modularizing the most common jobs served on the platform. Project Catalog is a collection of predefined projects that businesses purchase through an e-commerce purchase experience. Users on the demand side benefit from a frictionless way to purchase well defined, quality verified tasks to augment more complex work being done by full time employees. On demand workers on the supply side benefit from having a new avenue to market and sell the services they consistently perform. Importantly, Project Catalog widens the customer acquisition funnel by providing an easy on ramp for new customers to source and connect with talent, enabling businesses to quickly start with small projects and scale to larger and longer-term projects and relationships.

Second, Upwork is shifting its go to market strategy to target large enterprises. Currently, enterprise customers with more than 100 employees account for 20% of Upwork's \$2.7 billion in gross services volume. As part of shifting the go to market strategy, small and medium sized business customers will move to a fully self-service offering, allowing Upwork's sales force to focus on capturing the \$3.5 trillion in gross services volume that large enterprise customers currently spend on contingent labor. As Upwork's sales team targets the large underserved market opportunity presented by enterprise customers and raises awareness of the quality verified modular work units available in Project Catalogue, there is a long runway for Upwork to power offline to online conversion in the on demand labor marketplace while breaking down the barriers to adoption and growing the overall size of the market.

Third, Upwork is evolving to become an enterprise resource planning system for businesses to manage their on-demand workers. There are 3 main parts to this. One, Upwork is expanding its employer of record status to all businesses. Employer of record status indemnifies businesses from misclassification risk and the

inherent punitive fines and back taxes, creating a situation where managers “don’t get fired for choosing Upwork”. Two, Upwork is expanding its payrolling solution. The expansion of the payrolling solution creates a centralized global offering for businesses to pay independent workers in 160 countries. A payrolling solution with escrow protection provides value by ensuring that businesses only pay for completed work, and on demand workers get paid on time and in full. A recent product initiative, Direct Contracts, enables escrow protection of on demand workers outside of the Upwork marketplace. Upwork’s position in the middle of payment flow naturally pulls users onto the marketplace as Upwork provide a distribution relationship where they bring the value to both parties. Three, Upwork is expanding analytics and reporting functionality for productivity, compliance, and risk controls. Increased functionality further ingrains Upwork in enterprise workflow as it becomes the single pane of glass for managing on demand workers.

These three steps in the path to increased enterprise usage create value by changing the way enterprises utilize on demand workers. As enterprise customers utilize Upwork’s platform to vet experienced talent to create their virtual talent bench, the benefits of greater control and flexibility to dynamically manage their cost base and flex operations as they scale becomes ingrained in their way of doing business. As younger generations that are twice as likely to engage remote workers in an on-demand capacity ascend to managerial roles with hiring and decision-making authority, the secular trend of increasing on demand worker utilization only grows stronger. While the strategic initiatives and secular trends push the business forward, Upwork’s significant growth investments that are being expensed as Research and Development, and Sales and Marketing on the income statement paint a picture far different than the run rate profitability both currently and at scale. With a current marketplace gross services volume of \$2.7 billion and a contingent work addressable market worth upwards of \$500 billion in gross services volume today, we see a long runway for Upwork’s global scale to drive transformation of on demand labor usage to reduce frictional inefficiencies in the labor market and create meaningful shareholder value.

### **Conclusion**

The end of 2020 marks the culmination of the second year of Spree Capital Advisers. The last two years have seen trade wars, shifting global hegemony, a global pandemic, and significant stock market turmoil. Despite the many causes and effects of financial market stress, great business models with scalable strategies, long runways of high return on invested capital opportunities and long-term secular tailwinds provided meaningful shareholder returns. While we can never be completely certain what the year ahead will bring, we will always adhere to our process while making continuous improvements, and trust that it will result in attractive investor returns over time.

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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