Dear Investor,

The Spree Capital Advisers Composite Index declined 9.68% net of fees in the third quarter of 2019 versus a total return of 1.70% for the S&P 500.

<table>
<thead>
<tr>
<th>Spree Capital Advisers</th>
<th>JAN</th>
<th>FEB</th>
<th>MAR</th>
<th>APR</th>
<th>MAY</th>
<th>JUN</th>
<th>JUL</th>
<th>AUG</th>
<th>SEP</th>
<th>OCT</th>
<th>NOV</th>
<th>DEC</th>
<th>YTD</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>14.6%</td>
<td>4.53%</td>
<td>1.96%</td>
<td>9.72%</td>
<td>-9.59%</td>
<td>1.50%</td>
<td>-1.22%</td>
<td>-1.77%</td>
<td>-6.92%</td>
<td></td>
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<td>11.09%</td>
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<tr>
<td>S&amp;P 500 Total Return</td>
<td>8.01%</td>
<td>3.21%</td>
<td>1.94%</td>
<td>4.05%</td>
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<td>7.03%</td>
<td>1.44%</td>
<td>-1.58%</td>
<td>1.87%</td>
<td></td>
<td></td>
<td></td>
<td>20.55%</td>
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**Q3 Review**

In the third quarter of 2019, the defensive sector rotation prevalent in July was exacerbated in August when President Trump threatened to increase tariffs on imports from China. In early September, the growth and value factor betas that had trended for most of the year abruptly reversed; the S&P 500 Value Index outperformed the S&P 500 Growth Index by 2.03% in the quarter, with 170% of that outperformance occurring in September.

In our Q1 letter, we wrote about the opportunity that results from the intersection of quantitative factor investing, momentum trend followers, and high frequency traders. We articulated that when this combination of players conspires together, valuation dislocations create asymmetric opportunities for the long-term investor in great businesses. We use this irrationality to our advantage when we enter new positions, but our interest in tax efficiency means that we sometimes have to wear intermediate losses on existing positions when a long term investment suffers a short term price decline, even when the value of the business, and the outlook for the business, are unchanged. In the second half of September we faced this dynamic when three of our investments declined in price, for reasons that we believe will prove to be temporary. While it is still early in the fourth quarter, we have already seen this dynamic reverse.

Our Undiscovered Compounder strategy contracted 6.78% in the quarter. This strategy consists of great businesses with proven management teams with long runways for the business to reinvest cash flows at high incremental returns on invested capital. In the third quarter, we invested in a new business, Colfax, which we discuss below. Our Undiscovered Compounder watchlist has 50 businesses in the funnel, not including the investments we made in the quarter.

Our Value with a Catalyst strategy contracted 2.90% in the quarter. This strategy consists of good businesses with near term catalysts to rectify a depressed valuation. In the third quarter, we invested in Cars.com. We discuss our rationale below. Our Value with a Catalyst watchlist currently has 11 businesses in the funnel, not including investments we made in the quarter.

**Undiscovered Compounders**

**Colfax Corporation (CFX)**

A criterion of our process in evaluating great businesses for our Undiscovered Compounder strategy involves the concept of a repeatable business model. A repeatable business model is a simple set of constructs that drives successful execution of each strategy, in all markets, in all parts of the business cycle. In the same way that success in any skill-based competition is often predicated upon prior incremental improvements over time that build and strengthen the relevant neural pathways for the said skill, a repeatable business model rests on well-defined core principles that are repeated consistently over time. These well-defined core
principles ensure that team members understand company goals and how their own individual responsibilities push those goals forward. This alignment of incentives across the organization then ensures that the flow of information is fast and accurate, which in turn enables management and front-line employees to anticipate customer needs and remain one step ahead of competitors in sourcing future growth opportunities.

Danaher Corporation’s system of continuous improvement, the Danaher Business System, is an apt representation of a repeatable business model. The Danaher Business System provides the constructs from which all employees meet quality and cost benchmarks as they deliver superior customer satisfaction and profitable growth. The continuous improvement mindset then reverberates across all aspects of the business, from cost efficiency in production, to new product development and marketing and sales execution. The end result is market share gains and sustainable earnings growth over time.

Investing in Colfax today is like investing in Danaher in 1991. In 1991, Danaher was a little over a year into a portfolio transition in which CEO George Sherman repackaged the portfolio into less cyclic businesses. Sherman did this by divesting business lines that sold to troubled, cyclical industries. The high-quality remaining businesses then operated as platforms from which Danaher executed bolt on acquisitions. Bolt on acquisitions built scale, which created operating efficiencies and pricing power that strengthened Danaher’s strong positions in growing, niche markets. The end result was three decades of 20%+ annual shareholder return.

Today, Colfax is at the end of a multi-year portfolio transformation that repositioned the portfolio from cyclical businesses to businesses with recurring revenue and secular growth. The new Colfax consists of two segments; Fabrication Technology and Medical Technology. Fabrication Technology develops consumable products and equipment used in welding applications. Medical Technology is a developer, manufacturer, and distributor of medical devices for use in injury prevention, surgical repair, and rehabilitation. With any business that we invest in, we look for multiple ways to win. With Colfax, there are five.

First, we see opportunity in the analytical complexity of Colfax. Colfax’s two-year portfolio transformation began in 2017 with the divestiture of the Fluid Handling business. 2018 was defined by bolt on acquisitions to strengthen and diversify the Air & Gas segment. 2019 is defined by further complexity from the acquisition of medical device company DJO Global, and the recent divestiture of the Air & Gas segment. The goal of the transformation process was to create a fast growing, high margin company that generates cash consistently throughout the business cycle. Strong cash flow throughout the cycle then feeds a long runway of tuck in acquisitions and high return on invested capital investments that support faster innovation and strengthen the business. This transformation has made Colfax an orphaned equity. What many know of Colfax is the old Colfax, a Danaher relative with end market exposure to oil industry capital expenditures, coal fired power plants, and the cyclicity of the macro economy. The new Colfax is a high-quality business with over 90% of sales from recurring run rate products, long term secular growth tailwinds, a significant runway for bolt on and adjacent acquisitions, and a proven, repeatable business model to execute over the long term. The new Colfax does not yet have a dedicated analyst base or investor base, and this orphaned equity status and analytical complexity has created a valuation discount of over 50%.

Second, we see opportunity from an upcoming inflection in earnings. Shortly after the DJO Global acquisition closed in February 2019, Colfax management undertook a large restructuring plan. Investments in DJO Global were made to strengthen the businesses foundation to support scalable, long term growth. As the capex cycle rolls off, margin expansion will come from process improvements in the supply chain,
procurement gains, improvements in the reimbursement cash cycle, and the scalability of volume growth from recently released products.

Third, we see opportunity in the long-term secular growth tailwinds driving the DJO Global business. DJO Global's product line of braces, artificial shoulders, knees and hips span the spectrum of injury prevention, surgical repair, and rehabilitation. As product innovation is supported by secular tailwinds from increasing orthopedic injuries in an active and aging population, leading market positions are set to grow. Additionally, as reimbursement shifts to an outcome focus, and treatment shifts to outpatient post-operative rehabilitation, there is an increased need for connected medicine to enable remote patient monitoring to ensure treatment compliance. DJO Global is in pole position to derive outsized value from these long-term secular growth tailwinds.

Fourth, we see multiple platforms within the Medical Technology segment. The Danaher and Colfax playbook entails building platforms with sufficient market size in fragmented industries with core market growth and a long tail of subscale participants that can be acquired through a low risk, repeatable, tuck in acquisition process. In Medical Technology, we see at least two platforms in Orthopedic Solutions and the broader medical technology business. From this footprint, Colfax will use its repeatable business model to make bolt-on acquisitions that provide synergies, and to make acquisitions in adjacencies that then function as standalone businesses. This represents a longer-term opportunity, that, due to typical time arbitrage dynamics, is not reflected in the valuation.

Fifth, we see Colfax eventually splitting into at least two companies. Colfax's segments in Fabrication Technology and Medical Technology do not make a lot of business sense as a combined entity. We believe that as Fabrication Technology and Medical Technology continue to scale their businesses, Colfax will eventually follow the path of Danaher and split into at least two separate companies.

All told, we get these five legs to our investment thesis at a valuation discount of 50% to Fabrication Technology peers and Medical Technology peers. We are underwriting 100% upside in the medium term, and multiples of that in the out years. As margins expand, earnings grow at a double-digit rate, and internally generated free cash flow feeds the tuck in acquisition machine, we believe the continuously improving repeatable business model will compound over the long term.

**Value With A Catalyst**

Cars.com Inc (CARS)

One tenet of our Value with a Catalyst strategy revolves around the situation when a change in the shareholder base causes uneconomic sellers to depress the valuation of a good business. A halted sales process in Cars.com (CARS) created this dynamic in the third quarter. We used the opportunity to invest in the auto sales platform business at an attractive valuation, ahead of several medium-term catalysts. We believe there are four ways to win with Cars.com.

First, there is confusion over affiliate conversions from wholesale to direct customer relationships. In 2017, Cars.com was spun out from broadcast media company TEGNA Inc (TGNA). Under Tegna's ownership, a third of Cars.com auto dealership customers were sourced as a result of affiliate relationships in which newspaper companies sold Cars.com subscriptions as part of their print advertising packages. The outsourced sales structure and bundling to print advertising were not conducive to leveraging the strength inherent in a digital marketplace business. In addition to the suboptimal sales structure, Cars.com was prevented from marketing in key markets due to distribution restrictions. Over the last year and a half, Cars.com has been converting affiliate contracts to direct relationships, with the process now near completion. The conversion
from affiliate relationships to direct relationships has distorted the cash flow dynamics as Cars.com makes one-time payments to terminate affiliate contracts. As the conversions near completion, revenue recognition per contract increases, and Cars.com is able to use an optimized sales structure with stronger customer feedback loops to go after new markets and previously churned customers.

Second, the investor focus on affiliate conversions and the suboptimal legacy sales structure which allowed dealer attrition has obfuscated the underlying business model shift at Cars.com.Cars.com has shifted from a listings only classified model to a platform catering to auto dealerships. By acquiring ancillary service businesses such as Dealer Inspire, AutoCorrected, and Online Shopper, Cars.com has created cross and up-selling opportunities for existing customers and improved the acquisition funnel for new customers. Dealer Inspire, a website management business that caters to dealer’s sales and service needs, recently won the rights to General Motors business. This win alone conservatively adds low single digit recurring revenue growth to Cars.com’s overall top line growth. More importantly, ancillary businesses such as Dealer Inspire increase customer engagement, reducing churn and increasing the customer lifetime value.

Third, growth in leading key performance indicators point to an upcoming inflection in dealer customer count. Monthly site traffic has consistently grown throughout the year. Increased traffic leads to increased auto sales, which creates new customer targeting opportunities that the new go to market sales structure can then use to improve sales conversion and lead generation. Our research suggests that dealer count and top line growth is nearing an inflection point as the benefits from sales force investments and the improved value proposition of ancillary products comes to fruition.

Fourth, the obscured free cash flow dynamics inherent in Cars.com's capital efficient business model are nearing an inflection point. As the one-time factors inherent in the shift from affiliate to direct relationships ends, revenue and earnings growth for the platform inflect, and as the 20% FCF yield becomes visible, it is likely that the discounted valuation (50%-80% discount to similar business models) abates. Absent that, Cars.com will continue to repurchase a sizable percentage of shares outstanding using internally generated cash flows. We believe the odds are stacked in favor of healthy shareholder return for Cars.com investors, and at a heavily discounted valuation, we like the risk reward profile.

Conclusion
In the third quarter of 2019, the internals of the stock market favored defensive and value factors that had performed poorly in the first half of 2019. Our approach was the same approach that we have followed and refined over the years: find and monitor great businesses, and then wait for the market to offer attractive investment opportunities.

As long term investors in great businesses with long runways to grow at high rates of return on invested capital, we cannot control the results of our decisions in any given month or quarter, but we will always remain true to our process, and trust that it will result in a high batting average, a high slugging percentage, and a healthy outperformance.

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

Sincerely,

Thatcher Martin, CFA
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