SPREE CAPITAL
ADVISERS

Dear Investor,

The Spree Capital Advisers Composite Index advanced 0.69% net of fees in the second quarter of 2019 versus a total return of 4.30% for the S&P 500.

Spree Capital Advisers Returns vs. Indices													
	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%							23.00%
S&P 500 Total Return	8.01%	3.21%	1.94%	4.05%	-6.35%	7.05%							18.54%

Q2 Review

In the second quarter of 2019, President Trump abruptly raised tariffs on imports from China. This action led to a 6.35% market sell off in May, followed by a 7.05% recovery in June, on the expectation that the European Central Bank and the Federal Reserve would ease monetary conditions.

Early in the year, we made the conscious decision to not to try to outtrade the market on every new trade war headline or tweet. Our view is that while it is tempting to try to find a signal in the noise, we get a far higher return on invested time by understanding the macro landscape and then constantly reassessing that landscape with any conflicting or supporting actual news. On the macro landscape front, our research suggests that the recent weakness we are seeing in our proprietary leading indicators is primarily a result of businesses curtailing capital expenditures as they wait for clarity on President Trump's trade war. We believe that the posturing between the US and China will continue long after President Trump leaves office. However, in the near term, financial markets are more likely to be driven by a preemptive cut in interest rates by the Federal Reserve, and by President Trump's desire to boost stock prices ahead of the 2020 elections by means of a trade deal, capital gains tax cut, and less likely, an infrastructure spending deal. While we are aware that we may be exposed to wider market systemic pressure and second derivative effects from geopolitical posturing in the near term, we are, as always, sticking to our process of researching great businesses with growing competitive advantages and secular tailwinds that drive meaningful shareholder return over the long term. We are excited about the portfolio, and the businesses we are vetting for future inclusion, several of which we discuss below.

Our Undiscovered Compounder strategy detracted 3.02% from our 0.69% net return in the quarter. This strategy consists of great businesses led by proven management teams with clearly defined strategies to maximize shareholder value and are supported by secular tailwinds which provide long runways for management teams to reinvest cash flows at high incremental returns on invested capital. In our Q1 letter, we wrote about Roku (ROKU), Frontdoor (FTDR), and Alarm.com (ALRM) for this strategy. In Q2 we trimmed ROKU in accordance with our risk parameters which prevent us from having any more than 10% of a position in any one business. Our risk parameters are designed around preventing the historical fact pattern of mistakes that we have seen at other funds from impacting our portfolio performance. In Q2, our Undiscovered Compounder watchlist had 49 businesses in the funnel, not including the investments we made in the quarter.

Our Value with a Catalyst strategy contributed 3.71% to our 0.69% net return in the quarter. This strategy, which consists of good businesses with near term catalysts to rectify the misperception that depresses the valuation, did its job of providing ballast to the portfolio when certain factor betas temporarily impact the core Undiscovered Compounder strategy. In our Q1 letter, we wrote about eBAY (EBAY) and Zayo Group

(ZAYO) for this strategy. In Q2, we exited ZAYO after our thesis came to fruition. Our Value with a Catalyst watchlist currently has 10 businesses in the funnel, not including the investments we made in the quarter.

Undiscovered Compounders

Covetrus (CVET)

Covetrus (CVET) is an animal health technology and service company. Formed as a result of a Reverse Morris Trust merger transaction between Henry Schein Animal Health and venture capital backed animal health technology company Vets First Choice, Covetrus is currently trading near its 52-week low due to typical spin off dynamics, and one time, pre-spin organic growth headwinds. A key part of our investment process is that we must have a differentiated view, supported by our research, that we believe will eventually become widely held as earnings growth comes to fruition. With Covetrus, we believe that as the merger is integrated, it will become clear that in this deal, 1+1=3.

Central to understanding the opportunity in Covetrus is understanding the business of a veterinarian. Veterinarians manage a wide variety of complex medical services for a wide variety of species, all while running laboratories, surgery centers, pharmacies, and retail stores. Covetrus helps veterinarians run their diverse businesses by simplifying the administrative tasks of the practice, while increasing coordination between medical records and prescription management technology. In simplifying the management of the practice, Covetrus not only reduces inventory and shrink, which frees up cash flow and grows margins, but more importantly, allows a veterinarian to focus on their core competency of delivering healthcare to animals, and services to pet owners.

We see five stages in the path to value creation at Covetrus. First, Covetrus will increase penetration of the Vets First Choice platform across the Henry Schein Animal Health network. Vets First Choice was previously a startup in hypergrowth phase that was constrained by sales and customer service resources. The merger with Henry Schein Animal Health brings a significantly larger sales force with a relationship network that will help grow penetration from the current 8,000 practice footprint to the existing 100,000 Henry Schein Animal Health customer footprint.

Second, as the Vets First Choice platform penetration grows, the addressable market grows. Addressable market growth comes from eliminating gaps in care by increasing medication compliance, from returning sales to the vet from online channels, from increasing sales of private label and compounded medication products, and from growing end markets.

Third, Covetrus increases the lifetime value of the customer through increased sales and increased customer captivity. The Vets First Choice platform offers customer analytics and insights which help the vet practice grow revenue streams. In doing so, Covetrus creates opportunities to upsell products (consumables, equipment) and services (business clinics, financial services, inventory management, professional development). The increase in purchasing frequency, and increased usage of operating services raises switching costs and barriers to entry, which increases the lifetime value of the customer, effectively growing the moat around Covetrus' business.

Fourth, the maturity curve of Covetrus customer sales has a long tail of growth. Vets First Choice customers typically start slow on the platform in the first year, and then the ramp in years 1-5 shows double digit annual sales growth. Covetrus' increased sales force and high touch service offering create value by fixing any integration issues that could potentially cause churn in the first year before the strength of the business model goes into effect.

Fifth, as sales per location grow, the benefits of the distribution footprint create value. Specifically, the scale that Henry Schein Animal Health has from its position as the largest global distributor of animal veterinary products spreads the benefits of increased inventory turns across the fixed costs of 54 distribution centers worldwide, and creates more efficient truck rolls for deliveries, and the sales people who visit the 100,000 veterinary clinics every two weeks.

The aforementioned self-help initiatives are all backed by secular tailwinds from increasing companion animal ownership globally, and the "humanization of pets" flywheel which feeds increased spending on pets, causing pets to live longer, further causing an increasing range and complexity of medical diagnostics, therapies, and procedures for companion animals. In conclusion, we believe that Covetrus is in the early innings of growing the moat around the business which will lead to long term compound growth in earnings and shareholder value.

BlackBerry (BB)

Most know of BlackBerry (formerly Research in Motion) as the inventor of the smartphone. Some may know of BlackBerry as a value trap that has not appreciated in over 5 years. Some may also know that BlackBerry has recently finished a transition from a handheld device company to a software and services business. We have followed BlackBerry's transformation for years, and we believe that the pieces are finally in place for sustainable value creation.

BlackBerry has three complexifiers that obfuscate the value inherent in the business. First, a shrinking top line previously made Blackberry un-investable. The shrinking top line was due to a 5-year turnaround that has taken Blackberry from a smartphone maker with $6.8B in sales, to a software and services business with over $1 billion in recurring revenue. This dynamic changed in Q4 2018 when Blackberry put up total company revenue growth for the first time in over 5 years. Second, BlackBerry modified its sales model to focus on subscription licenses at the expense of perpetual licenses, coinciding with a shifting accounting model under ASC 606. Third, BlackBerry is investing in new products and services, while facing an investing vs revenue and earnings mismatch in the financial statements due to the fact that the benefit of many current and past design wins do not show up in earnings until 2-3 years after the fact. All three of these earnings complexifiers follow a historical fact pattern that has created successful investment opportunities for us in the past.

BlackBerry has three growth drivers that will create value. First, BlackBerry's QNX middleware provides an operating system and software development tool with a long tail of penetration and ARPU growth. As software increasingly defines the automobile, from driver safety assistance programs to infotainment installations, the use cases for QNX grow from the current higher end auto mix of today, to eventually, all 1.1 billion automobiles worldwide. As the addressable market grows, QNX ARPU grows. In the 3-5 years since the 150 million primarily infotainment based installed base had design wins, the penetration has increasingly shifted to higher margin, new cycle advanced driver assistance products such as digital cockpits. Importantly, the economic value for these recent, higher value design wins do not show up on the income statement (besides nominal six figure development payments) until the royalties begin to accrue 3+ years after the design win. Additionally, QNX has significant white space and platform scalability in other industries. This scalability is evident in the recent launch of QNX OS Medical 2.0, an operating system used in the development of secure medical devices. Significant white space also exists in industrial robots, green energy solutions, and building automation systems.

Second, we believe that BlackBerry's acquisition of Cylance, a provider of advanced cyber security products, represents a 1+1=3 opportunity for revenue and earnings growth. As Cylance products are embedded into the BlackBerry portfolio beginning in 2H19, the cross-selling opportunities of the entire BlackBerry platform to Cylance's small-medium business customers, and to BlackBerry's large enterprise customers, creates upside that is not reflected in current market estimates.

Third, BlackBerry has several secular tailwinds that support growing end markets. The rise of cloud computing has led to increased enterprise use of decentralized applications, which has created significant growth in the number of vulnerable endpoints that are then targeted by hackers. While this is happening, the increased use of connected equipment; from autos to industrial and home sensors has multiplied the number of vulnerable endpoints. With the step change in data throughput available with the launch of 5G, the number of endpoints on "things" communicating with each other will grow exponentially. We believe that BlackBerry's lead in endpoint security technology puts it in pole position to capture much of the growth in this market. While this is happening, the economic wars of the 21rst century are increasingly being fought through the theft of intellectual property and digital assets. We believe that the entire cyber security industry is underearning its potential.

In any business we invest in, we look for multiple ways to win. With BlackBerry, we get accounting complexifiers that obfuscate the valuation, a QNX operating system with a first mover advantage and significant market applications and latent pricing power, cross selling & upselling opportunities of Cylance in both the existing footprint and across other industries, and secular tailwinds that support growing end markets. We get all of this for under 4x recurring revenues, supported by a margin of safety provided by a patent portfolio with over 37,500 patents with a 10-year average life, for a company growing the top line at 25% and doubling operating margins over time.

Value with a Catalyst

Qualcomm (QCOM)

Qualcomm contributed 2.29% to our 0.69% quarterly return. Our return in Qualcomm was the result of a costless option position we had put on ahead of the Apple trial. Ahead of the trial, the position represented 0.15% of fund assets.

We have followed Qualcomm for years, and we have followed the Apple litigation closely. However, April was the first investment we made in the company. It appeared to us that Apple had more to lose than gain in missing out on a new 5G phone release in 2020, as rival Samsung was set to launch the Galaxy S10 5G in May of 2019, and Intel's 5G modem was proving to not be a viable option for Apple. It also occurred to us that Qualcomm's business model was much less at risk than what the market had been led to believe. We believed that either Apple would settle out of court, or that Qualcomm would win in court.

When Apple struck a new agreement with Qualcomm, our 0.15% position, at that point in Qualcomm calls, returned 1524% and it became a 2.29% position. It is important for us to note that despite the fact that our thesis ultimately turned out to be correct, given that court trials and legal settlements are impossible to predict with over 90% accuracy (our base case requirements any time we make such a forecast), we were only comfortable with having a 0.15% position. We assessed the merits and risks of the position, and we adhered to our process.

Conclusion

At the halfway point in the year, we are up 23% net of fees, after having outperformed in four out of the six months by an average of 0.81% per month. We were active in our Underfollowed Compounder strategy in Q1, and we were active in our Value with a Catalyst strategy in Q2. This pattern of activity is typical of our approach, as the Value with a Catalyst strategy does its job of providing ballast to the portfolio when the

Undiscovered Compounder strategy is exposed to temporary systemic market pressure from certain factor betas, even while our core businesses are growing their competitive advantages and earnings power.

Our approach in the first half of 2019 was the same approach we have followed and refined over the years: find and monitor great businesses, and then wait for opportunities for the market to make mistakes. Lately, this approach has involved a wide range of deep work and little action. We are finding and vetting many great businesses, and we remain vigilant as we anticipate potential opportunities presenting themselves.

We cannot control the results of our decisions in any given month, but we will always remain true to our process, and trust that it will continue to 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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