SPREE CAPITAL
ADVISERS

Dear Investor,

The Spree Capital Advisers Composite Index advanced 23.75% net of fees in the second quarter of 2020.

Spree Capital Advisers Returns vs. Indices														
	2019	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	YTD
Spree Capital Advisers	25.27%	-4.66%	-10.10%	-17.42%	10.79%	9.42%	2.08%							-12.41%
S&P 500 Total Return	31.49%	-0.04%	-8.23%	-12.35%	12.82%	4.76%	1.99%							-3.08%
HFRI EH: Fundamental Growth Index	13.74%	-0.53%	-2.63%	-9.72%	7.17%	3.84%	2.91%							0.14%
Barclay Hedge Fund Index	10.64%	-0.18%	-2.84%	-9.16%	5.37%	2.70%	2.18%							-2.58%
Barclay Equity Long Bias Index	15.28%	-0.77%	-5.05%	-12.02%	8.16%	4.11%	2.16%							-4.63%
Barclay Equity Long Short Index	6.59%	-0.67%	-2.21%	-6.04%	4.58%	1.67%	0.92%							-2.07%

Q2 Review

The second quarter of 2020 was defined by government mandated economic shutdowns, the disbursement of significant monetary and fiscal stimulus, the gradual reopening of regional economies, and a relentless bid upon any equity market sell off. In financial markets, liquidity trumps fundamentals in the short term, and the amount of liquidity that has been pumped into the system is unprecedented. Expansionary fiscal policy totaling three trillion dollars, and expansionary monetary policy totaling eight trillion dollars has had the joint effect of nearly doubling the Federal Reserve's balance sheet, and of increasing United States government spending by fifteen percent of gross domestic product. This liquidity injection, roughly six times the size and in one third the time as the total stimulus enacted during the financial crisis of 2008-2009, has, along with COVID-19, created bifurcated financial markets. Businesses exposed to certain long-term secular tailwinds have seen those tailwinds accelerate due to social distancing dynamics. Other businesses have seen multiple expansion despite deteriorating fundamentals on account of the wave of liquidity. The stock price appreciation in these businesses is further fed by expectations that COVID-19 will be quickly cured and that both consumer behavior and consumer spending will return to pre-pandemic levels.

Historically, the private sector funds itself during normal times, and the public sector injects liquidity during exogenous times. In the new normal, the absence of inflation and bond vigilantes to ensure fiscal discipline means that liquidity injections are occurring throughout the cycle. The mechanism of the most recent liquidity injection is atypical. Typically, money is created by commercial banks, with central banks influencing that money creation through changes in interest rates, reserve provisions, and capital adequacy rules. In the most recent fiscal stimulus, the United States Government directed commercial banks to issue grant loans to companies, which were then guaranteed by the government. With this new tool of using credit guarantees to control the assets on commercial bank balance sheets (in effect using contingent liabilities to circumvent central banks to create money), the floodgates of printing money to finance budget deficits were opened wider. It is obviously not prudent to fight this experiment, but any potential changes to the liquidity wave warrants close scrutiny.

Despite the unprecedented circumstances of these times, our process of researching and investing in great business models that ride long term secular tailwinds remains unchanged. Overleveraged economies and the resulting perpetually low interest rates only increase the opportunity set for our great businesses to use internally generated cash flow to scale high incremental return on invested capital opportunities to ride long-term secular tailwinds. If the new mechanism for money printing to finance ever growing budget deficits does lead to inflation, our toll road royalty businesses are well protected with competitive advantages and pricing power.

Our Undiscovered Compounder strategy contributed 23.75% to our net return in the quarter. This strategy consists of great businesses led by proven management teams with clearly defined strategies to maximize shareholder value. Our Undiscovered Compounder watchlist currently has fifty-eight businesses in the funnel, not including the three investments we made in the quarter.

Our Value with a Catalyst strategy contributed negligibly to our net return in the quarter. 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. We are avoiding merely "good" businesses, as we wait for opportunities in great businesses that are spun off or are undergoing structural change. Currently, our Value with a Catalyst watch list has six businesses in the funnel.

StoneCo Ltd (STNE)

Early in the second quarter, we used the market selloff to initiate a new position in StoneCo (STNE). Stone is an independent merchant acquirer in Brazil that is disrupting the financial industry. When we invest in disruptive businesses, one part of our process lies in identifying and understanding the ways in which entrepreneurs and management teams are playing multidimensional chess. The ability to think and plan several moves and several years ahead creates a business model that many investors and competitors miss. In Stone, we believe we have found such a case. After founding, scaling, and selling several financial technology businesses in Brazil, André Street and Eduardo Pontes recognized an opportunity when the Central Bank of Brazil and the Brazilian Competition Authority deregulated the merchant acquiring-card network market duopoly held by Redecard-Mastercard, and Visanet-Visa. Shortly thereafter, Stone was founded as an independent merchant acquirer on the belief that the biggest pain point in running a business in Brazil lay in the frictional nature of financial services. In initially positioning Stone as a customer service oriented independent merchant acquirer, Stone established a distribution engine to facilitate the real strategy: to become the ecosystem of acquiring, payment, customer relationship management, enterprise resource planning, banking, and credit that merchants run their entire businesses on.

Central to understanding Stone's opportunity is understanding the many pain points businesses face from the bureaucratic and cultural roadblocks held in place by Brazil's high cost banking system. An oligopolistic market structure has five financial institutions controlling eighty percent of the credit market through ownership of ninety percent of bank branch led distribution. Obsolete technology, inefficient distribution, and insufficient customer service has left customers underserved and overcharged. As a result, despite widespread internet access and ubiquitous smartphone penetration, Brazil still has a long runway for penetration growth in all aspects of financial technology. In closing the gap with peer countries in electronic payments, credit card usage, and e-commerce sales, Brazil has several predictable secular growth tailwinds that Stone is poised to accelerate. Stone was founded on the belief that Brazil is on the cusp of a technologically driven digital revolution. Recent legislation by the Central Bank of Brazil and the Brazilian Competition Authority is set to accelerate that.

To disrupt structural and habitual roadblocks inherent in Brazil's high cost banking system and to capitalize on pro competition legislation, Stone created the Stone Business Model. The Stone Business Model is a repeatable go to market strategy that links Stone's cloud-based platform and its differentiated customer service, sales and distribution system. The disruptiveness of Stone's differentiated customer service and sales and distribution strategy is seen in Stone's rapid growth (74% year over year client growth to 531k active clients, 52% year over year total payment volume growth), Stone's position as the largest independent merchant acquirer in Brazil (8% total share but processes 51% of e-commerce acquirer volume), and Stone's ranking as the highest Net Promoter Score company among peers (72). With any investment we make, we look for multiple ways to win. In Stone, we see five steps in the path to value creation.

First, Stone grows the Stone Hub distribution footprint. Stone's repeatable plug and play process to open Hubs and efficiently hire and train sales, service, and operational support team members to onboard clients and integrate Stone's platform into client's enterprise workflow feeds scalable expansion across the infill opportunities inherent in Brazil's 5,500 cities. The upfront costs of setting up a Hub are fixed, and as Stone scales their active client base from 531,300 clients across the 8.8 million small and medium sized businesses in Brazil, contribution margins quickly expand. Stone's purpose-built operating system, in which they own the end to end platform (and thus do not rely on third parties for processing and settlement), supports this path to meaningful margin expansion.

Second, Stone expands the range of financial services offered. Key to Stone's opportunity to expand financial services lies in the accelerating structural change in the economy. The Central Bank of Brazil and the Brazilian Competition Authority are enacting increasing changes that have the effect of breaking down the boundaries between payments, banking, and credit. The enactment of open banking rules in the second half of 2020 are one part of this. Under open banking rules, banks will be required to disclose the costs and terms of products and services offered, including client data, transactional data, and payment data. This is significant because these structural roadblocks have historically made it prohibitively difficult for merchants to change their banking relationships. With this change, Stone will now have access to merchant credit relationships that they can then bring into the Stone ecosystem. Upon bringing businesses into Stone's ecosystem, Stone will underwrite working capital loans based on proprietary data feeds from an expanding operating system. This service will be disruptive in part because of the existing dynamics of the corporate credit market for small and medium sized businesses. High spreads and short-term financing due to information asymmetry and rate volatility make it difficult for businesses to finance their working capital needs. Stone's platform and the real time information it generates means that Stone is able to facilitate lower cost working capital loans. Importantly, Stone earns a fee for facilitating these loans, and because the loans are backed by third party investors, Stone does not take credit risk. Stone currently has less than a 1% market share in the $80B market for financing small and medium sized business working capital loans. We expect Stone's solution to remove frictions to grow this market significantly, and for Stone to gain meaningful market share.

Third, Stone expands into the micro merchant market. Through a recently launched joint venture with Grupo Globo under the TON brand, Stone will combine Grupo Globo's marketing and consumer intelligence capabilities with Stone's customer service and distribution expertise to scale the TON brand on top of the fixed cost of the Stone operating system and Stone Hubs. Brazil has 5.5 million micro merchants and twenty one million autonomous workers who are largely unbanked and without access to card-based transactions. Digital distribution from Grupo Globo's contributed media spend and marketing expertise will lead to low customer acquisition costs, and scale economics from Stone's platform and Hub network enable TON to offer the best product at the lowest cost, resulting in accelerated market share gains.

Fourth, Stone adds services organically that automate customer's enterprise workflow. Stone's position in owning both distribution and the end customer relationship puts them in an advantageous position to integrate services onto core payment offerings. This integrated platform of payments-software-banking-credit replaces a disjointed system with different systems for front office operations, payment acceptance, and back office functions. The customer feedback loop provided by the high level of integration between Stone Hubs and clients and the software integrated in client's enterprise workflow supports a model driven business that makes the operating system better for all users. A better product experience brings in more users, which further enables Stone to design new products for changing customer needs that they can rapidly push to scale using their purpose-built distribution system.

Fifth, Stone adds vertical applications from a position of strength given their chosen acquirer status. Stone's end to end distribution, service, and merchant operating system positions Stone at the central nexus of a long-term opportunity to grow software businesses in Brazil. We believe there are two key facets of this advantage. First, Stone has a closed customer feedback loop that provides real time information on client needs. This helps Stone identify attractive niches early on to vet potential M&A opportunities. Second, Stone management's expertise in supporting entrepreneurs in strategically growing their businesses and the distribution advantages to potential parties afforded by Stone's ability to push products to a growing base of 531,000 clients awards Stone chosen acquirer status. Chosen acquirer status means that Stone will increasingly get not only the first look at emerging software companies but will get that look at advantageous terms. To date, Stone has taken stakes in a variety of ERP, POS, CRM, social commerce, and health oriented businesses that all offer significant optionality for long term profitable growth.

In StoneCo, we are investing at a valuation attractive for an independent merchant acquirer. What we are getting in return is a disruptive business that is taking share in merchant acquiring and is riding several long-term secular tailwinds to expand their adjacent businesses that will compound earnings over the long term.

Wix.com Ltd (WIX)

Early in the second quarter, we used the market selloff to double the position size of our long-standing investment in Wix.com (WIX). We have long thought that investors were too pessimistic in their view of WIX as a simple website hosting firm, when in reality WIX is an infrastructure layer upon which extremely sticky customers utilize a self-service operating system to manage and grow their businesses. At our purchase price, we believe that investors failed to appreciate WIX's position at the beginning of a new stage of growth. The first stage of growth was achieved by expanding a website building platform with a steady funnel of users converting to subscribers. The second stage of growth is fed by expanding the operating system for business owners to manage their businesses on. With any business we invest in, we look for multiple ways to win. With WIX, there are five.

First, WIX has put in place a highly scalable system for low cost customer acquisition. WIX's superior brand recognition supports a freemium business model which adds more than two million new users per month to a growing base of 172 million registered users. Registered users are then converted into paying subscribers when they connect their free website to a domain name. The customer acquisition funnel provided by the 172 million registered users contributes over half of new monthly subscribers that add to a growing base of 4.7 million monthly subscribers. The negligible marginal cost of adding these registered users then contributes to a high ratio of customer lifetime value to customer acquisition costs, and a long runway of growing margins.

Second, WIX's runway for scalable global growth has been accelerated by COVID-19. Companies around the world need an online presence to effectively market and manage their businesses. This long-term secular tailwind has been strengthened as social distancing has accelerated e-commerce penetration gains and has increased the need for businesses to have an online presence. While WIX has seen an initial uptick of this strengthening tailwind in April with new user registration increasing 63% and net premium subscriptions growing 207%, the trend of businesses moving online has a very long tail. In the United States, 36% of small and medium sized businesses do not have a web presence. In the rest of the world, this number is far greater. WIX's customer base is split between North America (56%), Europe (25%),LatAm (6%), and Asia (13%). As the need for an online presence grows across developed and developing economies, WIX's brand recognition, superior product offering, and industry leading scale ensures that they capture an outsized share of this growth.

Third, WIX is growing the moat around its business. Industry leading scale in a highly fragmented market feeds scale benefits in product development that is then shared with the customer base. The advantage of shared scale benefits mean that with a customer base over twice as large as their next largest competitor, WIX is able to deploy over 1600 research and development professionals when their closed customer feedback loop identifies attractive niches to allocate resources to. This ability to develop new products and improve existing products to expeditiously meet needs of users ensures that WIX is always at the forefront of product innovation. The continued expansion in the number of vertical applications in the WIX ecosystem are then offered to WIX's 4.7 million premium subscribers. Applications include everything from Wix Ascend for client communication to Wix eCommerce. The recently launched Wix eCommerce provides an end to end platform for subscribers to use advanced marketing tools to target shoppers, sell products and services through multiple sales channels, accept online payments, and manage end to end fulfillment. As the number of applications grows, the value of the ecosystem as an operating system to manage a business grows. Growing switching costs then support growing net revenue retention, and margin expansion over the long term.

Fourth, WIX is expanding into areas with greater total addressable markets. With the recent launch of WIX's web design and content creation platform EditorX, WIX provides developer facing APIs for professional agencies. Professional agencies serve the Do It For Me website market, a market that is ten times the size of WIX's historical Do It Yourself market. Every agency that WIX adds to the EditorX platform procures a growing stream of subscribers to WIX's platform. These subscribers are higher value clients than those in the Do It Yourself market as their professionally developed websites consume more of the functionality that WIX offers, which generates higher average revenue per subscriber.

Fifth, WIX is adding to its application layer upon which independent developers can build vertical applications on top of WIX infrastructure. WIX's Corvid product allows for custom coding upon which developers build purpose-built applications for company use. As more subscribers, agencies, and independent developers build functionalities on top of Corvid, a virtuous cycle of data generation, insight, and more developer facing APIs, drives a flywheel of higher cash flow, reinvestments, and further shared scale economics.

In WIX, we get a highly scalable growing ecosystem with the industry scale, balance sheet, and internally generated free cash flow to fund a long runway of high incremental returns on invested capital investment opportunities. All of this is backed by the secular tailwinds of a growing need for businesses to have an e-commerce presence, which has been accelerated by the new normal of social distancing. All told, we believe that there is a low bar for WIX to grow sales over 400% in the near term at minimal incremental cost as the scalability of the platform becomes visible.

Conclusion

In our first quarter investor letter we wrote that "The most formidable barrier to compounding returns over the long term is resisting the urge to panic in the face of temporary price declines when the intrinsic value of the business is unchanged. In times of crises such as these, the best margin of safety against permanent capital loss and the risk of panicking out of an investment is owning great business models backed by strong balance sheets, run by superior management teams, and with sufficient internally generated cash flow to reinvest in high return on invested capital opportunities." Just three short months later, we find ourselves in an equally interesting position. Unprecedented monetary and fiscal stimulus has caused financial markets to ride a wave of liquidity on their way to new all-time highs. This wave of liquidity has resulted in widespread multiple expansion; justified for businesses whose secular tailwinds have strengthened earnings growth drivers due to the pandemic, and unjustified for leveraged businesses exposed to deteriorating financials. We do not see a near term catalyst for a closing of the floodgates of liquidity, but we believe any potential changes to the liquidity wave provided by monetary and fiscal policy warrant scrutiny.

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

The information contained herein reflects the opinions and projections of Spree Capital Advisers, LLC as of the date of publication, which are subject to change without notice at any time subsequent to the date of issue. Spree Capital Advisers, LLC does not represent that any opinion or projection will be realized. All information provided is for informational purposes only and should not be deemed as investment advice or a recommendation to purchase or sell any specific security. Spree Capital Advisers, LLC has an economic interest in the price movement of the securities discussed in this presentation, but Spree Capital Advisers, LLC's economic interest is subject to change without notice. While the information presented herein is believed to be reliable, no representation or warranty is made concerning the accuracy of any data presented.

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.

THIS SHALL NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY ANY INTERESTS IN ANY ACCOUNT MANAGED BY SPREE CAPITAL ADVISERS, LLC. AN OFFER TO SELL OR SOLICITATION OF AN OFFER TO BUY INTERESTS MAY ONLY BE MADE PURSUANT TO DEFINITIVE SUBSCRIPTION DOCUMENTS BETWEEN SPREE CAPITAL ADVISERS, LLC AND AN INVESTOR.