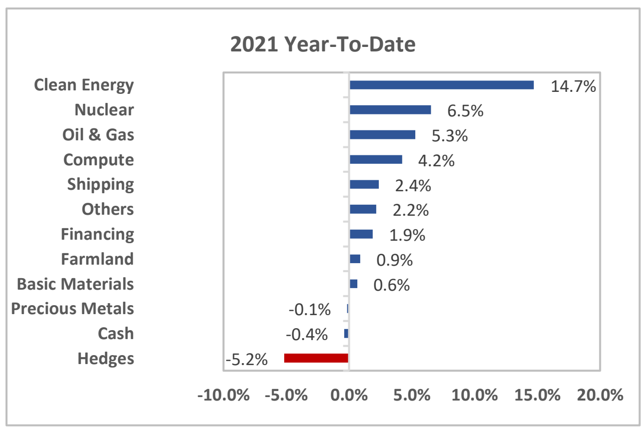
Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2019			0.1%	0.3%	4.3%	-4.2%	0.1%	-0.1%	0.9%	-4.1%	7.5%	6.0%	10.5%
2020	-6.2%	-2.0%	2.5%	12.4%	3.6%	-6.6%	19.6%	12.1%	-3.0%	-7.1%	2.1%	11.9%	41.6%
2021	1.1%	3.5%	-0.5%	6.3%	19.5%	-3.2%	4.0%	-5.2%	6.0%	9.9%	-8.1%	-1.4%	33.0%
2022	1.3%*												1.3%*

- **The Cypress Fund generated a net return of 33.0% in 2021 with a Sharpe of 1.3 and 5% correlation to the S&P 500.**
- **The lion's share of returns were generated in the first five months of the year; Clean Energy (15.0%), Nuclear (6.5%) and Oil & Gas (5.0%) were the biggest contributors.**
- **We turned more cautious in the latter half of 2021 because of pessimistic news flow and negative market technicals. Unfortunately, the market environment has deteriorated since.**
- **Two reasons we are on high alert: i) the Fed's unexpected hawkish pivot and ii) the ugly price action in markets. We cannot rule out the possibility of a severe correction.**
- **Given this, we will be increasing hedges, raising cash by trimming laggards and being conservative when deploying capital.**
- **One bright spot for 2022 – China may benefit from policy shifts that are accommodative.**

Dear fellow investors,

The Cypress Fund generated net returns in 2021 of 33.0%, buoyed by strong gains in Clean Energy (+14.7%), Nuclear (+6.5%) and Oil & Gas (+5.3%). The rest of our investment themes, with exception of Precious Metals, also contributed modestly to the fund's performance. Hedges however subtracted 5.2%, with the bulk of that, -3.8%, coming in the month of December. We had very low correlation, 5%, to the S&P 500 and a respectable Sharpe Ratio of 1.3. All in all, it was a good year.

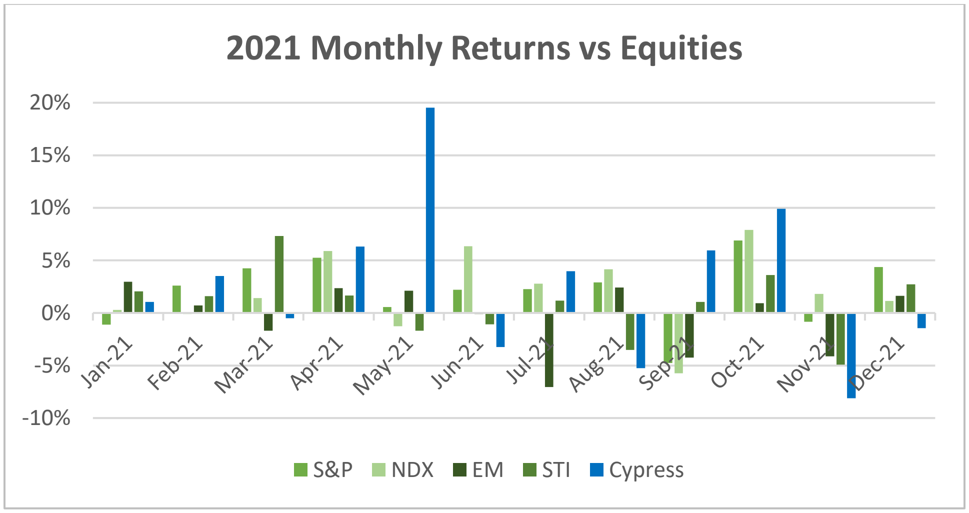


2021 was a year of two halves. The fund had a blistering start, up 32.3% by the end of May. Thereafter, returns became more volatile, with the remainder of the year contributing only 0.6%. While we had just one down month in the first five, the second half gave us four down months out of seven. The S&P 500 held a steadier course, rewarding investors equally in both halves and a stellar Sharpe of 2.4

	Cypress (Jan-May)	*Cypress (Jun-Dec)*	Cypress (Full Year)
Return	*32.3%*	*0.6%*	33.0%
# Positive Months	*4 of 5*	*3 of 7*	7 of 12
Sharpe Ratio	*2.6*	*0.1*	1.3
	S&P (Jan-May)	*S&P (Jun-Dec)*	S&P 500 (Full Year)
Return	*11.9%*	*13.4%*	26.9%
# Positive Months	*4 of 5*	*5 of 7*	9 of 12
Sharpe Ratio	*3.1*	*1.7*	2.4

*January 2022 return based on preliminary estimates

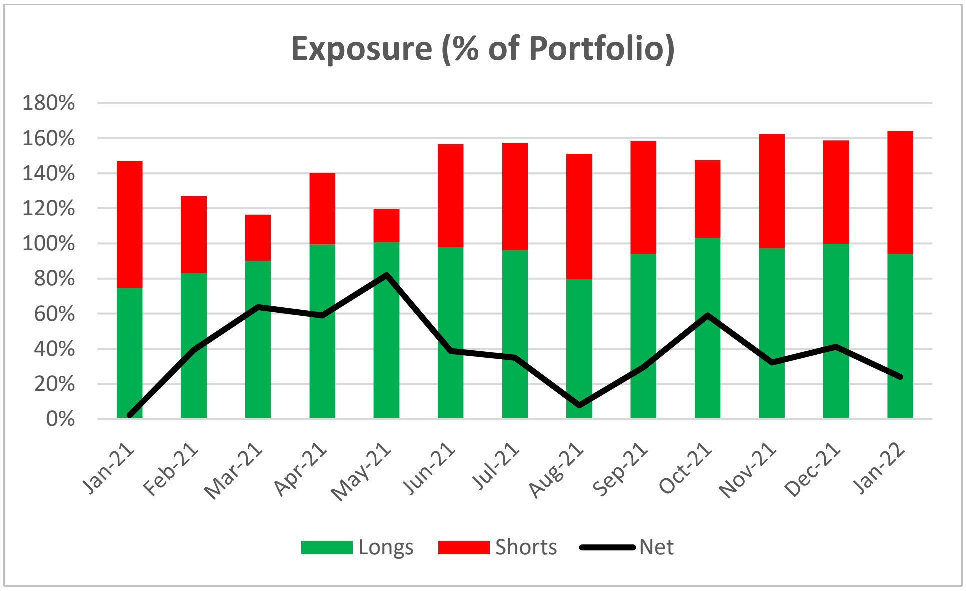
Recall that we manage a relatively concentrated portfolio in the Cypress fund with typically 25 to 30 investments, of which the top ten exposures could represent 60-70% of the portfolio. You would expect such a portfolio to be more volatile than broad equity indices with hundreds or even thousands of constituents. This in in fact the case, as you can observe from the chart below. Obviously, our job is to ensure that we have many lumpy up months, and few down ones.



This lumpiness is also reflected at the thematic level. Since inception, strong gains in two to three of our themes drove the bulk of annual returns. We invest in companies with catalysts and hence potential for imminent, large price rises but timing is never certain. Our expectation is that it may take years before these gains materialize since it is hard to predict when the market will come to appreciate the merits of the companies we own. However, when they do and prices start moving, they often move very much, very fast. As goes the apocryphal saying, "*In economics, things take longer to happen than you think they will, and then they happen faster than you thought they could*".

Theme	2019	2020	2021
Clean Energy	0.1%	-0.1%	**15.0%**
Nuclear	0.0%	**12.3%**	**6.5%**
Oil and Gas	**7.0%**	-3.4%	**5.0%**
Computing Power	0.0%	0.0%	4.2%
Shipping	0.2%	2.6%	2.4%
Financing	0.2%	0.4%	2.7%
Farmland	0.0%	0.0%	0.9%
Basic Materials	**2.8%**	**26.9%**	0.7%
Precious Metals	0.3%	-0.5%	-0.9%
Others	0.0%	1.3%	2.2%
Hedges	0.5%	1.0%	-5.2%
Cash	-0.6%	1.1%	-0.4%
Total	**10.5%**	**41.6%**	**33.0%**

At a more macro level, we had started 2021 filled with optimism; accordingly we ramped up risk-taking and increased the fund's net exposure from 0% in January 2021 to 80% in May 2021. Interestingly, this risk-on period also coincided with the bulk of our returns last year. In the latter half of 2021, we dialed down our bullishness; portfolio-wise this was reflected in increased hedging and reductions in net exposure. In fact, by the end of January 2022 our net exposure is down to 24%. Why was this?



In short, the macro environment changed significantly over the course of the year. Early in 2021, economic fundamentals were improving, the Fed was very accommodative, fiscal stimulus was generous and price action was strong. 12 months later, it is evident that financial markets no longer have the wind at its back as four out of five factors take a turn for the worse.

Macro Environment Clearly Worsening

Heading Into →	1H2021	2H2021	2H2022
Fundamentals	Improving	Strong	Strong
Fed/Monetary	Very dovish	Very dovish	Very hawkish
News Flow	Positive	Neutral	Negative
Fiscal Stimulus	Positive	Positive	Neutral
Technicals	Positive	Neutral	Negative

I) Fed Pivot By far the most negative factor. Investors have been worried about the risk of persistent inflation for months now but what is surprising is that the Fed suddenly appears determined to do something about it. In the latest FOMC Press Conference Q&A last week, Chair Powell was unreservedly hawkish in his remarks. Some of the things he said include:

- The economy is much stronger this time compared to 2015 (last rates lift-off), ie expect more tightening from the Fed this time versus 2015
- Both employment and inflation metrics necessitate monetary tightening, ie it is not just inflation which is what is in the headlines
- Hikes are possible at every single FOMC meeting, ie not just at quarterly meetings
- Does not rule out 50bps hikes, when 25bps has been the norm in recent history
- Balance sheet reduction to start shortly after hikes (no lag in between unlike last time)

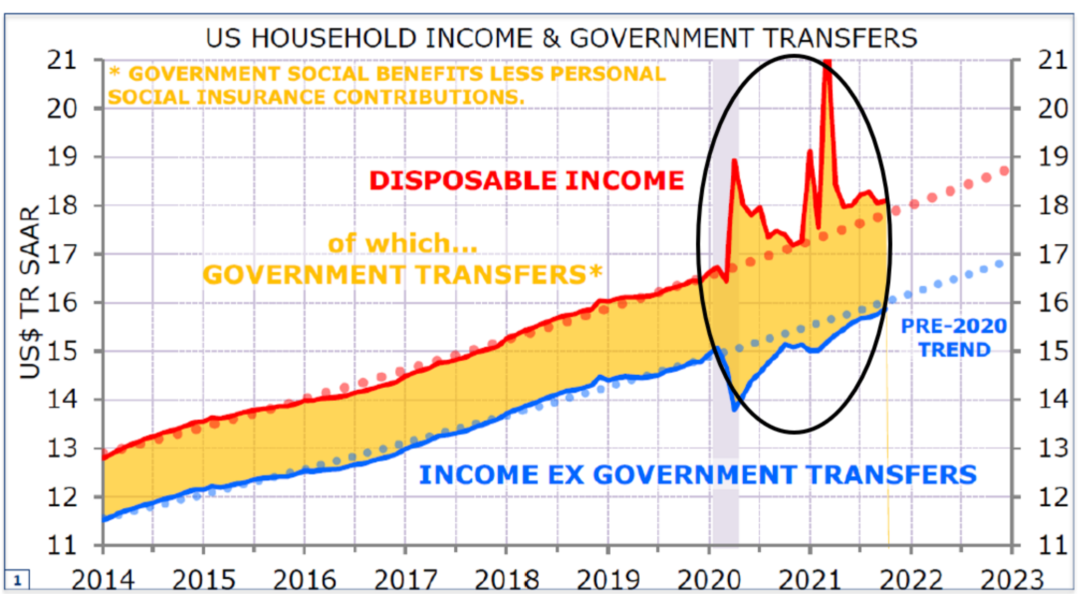
To be honest, we applaud the Fed's resolve to tighten monetary policy after last two years of extremely easy policy (on top of ten years of very easy policy before that). At the same time, we cannot help but be worried about how markets will respond to the punchbowl being taken away after having gotten so used to it.

II) News Flow News flow in early 2021 clearly reflected animal spirits and a risk-on environment, including highly speculative ones like Gamestop and SPACs. This changed after June where we received a drumbeat of negative news, although they were not necessarily reflected in the price action of broad equity indices. To be frank, we consider news flow a secondary risk factor but it still bears watching.

2021 News Flow

January	Brexit; **GameStop squeeze**	**Risk On**
February	Myanmar Coup; **SPACs**	
March	Archegos; Suez Incident/Evergiven; **Beeple NFT Sale**	
April	**Roll-out of vaccinations; Re-opening**	
May	**Dogecoin rally**	
June	**Crypto selloff**	**Risk Off?**
July	Space race; Didi listing; **China crackdown education**, etc	
August	**Energy price spikes** in Europe	
September	**China crackdown on real estate / Evergrande**	
October	Facebook - Meta	
November	**Fed Taper/Hawkish Pivot; Omicron**	
December	**Didi delisting; Russia v Ukraine; BBB blocked**	

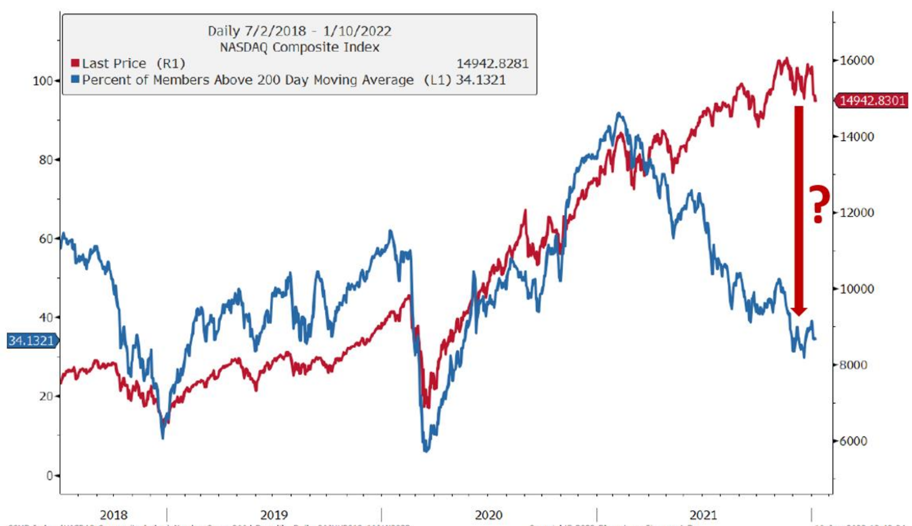
III) Fiscal Policy In the wake of Covid, the US government passed over US$ 5.7 trillion in stimulus measures, of which nearly US$ 5 trillion has already been disbursed (black oval). There is still another US$ 800 billion to be distributed so this is not yet a drag, but fiscal handouts will not have the same positive impact as it did in the last two years.



IV) Negative Market Technicals Price action is key. As investors we try to read what the markets are telling us; we know that our analytical abilities are imperfect and that there is wisdom in price action. In fact, this is why we were relatively sanguine a year ago despite already high prices in the equity indices – markets seemed to be saying that the party was still going strong at that time. This time around, price action is suggestive of a party nearing its end. We quote again from Lowry Research their observations about a market topping process; these signs and many others were absent last year; today they are indisputable. We would be foolish to ignore them.

> *The period leading up to a major market top shares a number of similarities with the Autumn season as it transitions into Winter. That is, in Autumn the leaves begin to fall from the trees in a very gradual process – nearly imperceptibly – one at a time, until the trees are eventually bare at the onset of Winter. It is no different near major market tops. Individual stocks begin to roll over into their own Bear markets, one at a time, usually beginning with the less noticeable small-cap and mid-cap stocks. An important consideration in this gradual process of erosion is that small-cap stocks generally make up about 40% to 50% of the stocks traded, while mid-caps typically make up about 30% to 40%. Big-caps generally account for only about 10% to 15% of common stocks traded. Thus, as a mature Bull market rallies through a series of higher highs in the big-cap price indexes (such as the DJIA and S&P 500), investors often see that a growing majority of stocks may already be in downtrends. At the final high in the big-cap indexes, a relatively small number of heavily weighted big-cap stocks can deceive investors into believing that the broad market is still in a healthy uptrend.*

Just A Few Mega-Cap Stocks are Keeping Indices Aloft



Jeremy Grantham, Redux

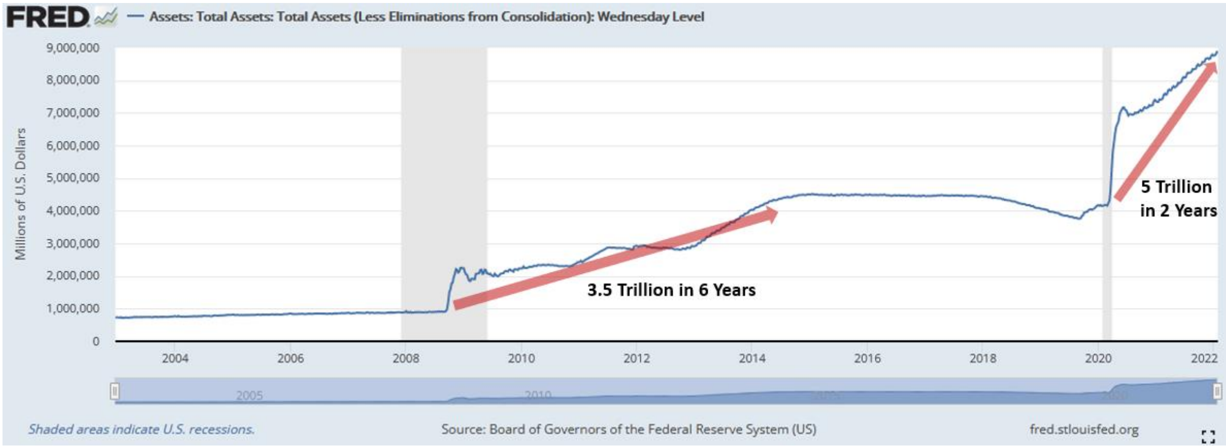
You may recall that in picking an investment roadmap for 2021, we compared Bill Miller's bullish take to Jeremy Grantham's "we are in an epic bubble that will soon burst" version. Last year, we cast our vote with Miller. Given the negative macro forces this time around, we admit we have to consider the possibility, if not yet the probability, that Grantham's bleak prognostications (S&P to 2500) could come to pass. In his updated commentary, this is what he had to say:

> *All 2-sigma equity bubbles in developed countries have broken back to trend. But before they did, a handful went on to become superbubbles of 3-sigma or greater: in the U.S. in 1929 and 2000 and in Japan in 1989. There were also superbubbles in housing in the U.S. in 2006 and Japan in 1989. All five of these superbubbles corrected all the way back to trend with much greater and longer pain than average.*
>
> <u>*Today in the U.S. we are in the fourth superbubble of the last hundred years.*</u>
>
> *Previous equity superbubbles had a series of distinct features that individually are rare and collectively are unique to these events. In each case, these shared characteristics have already occurred in this cycle. The checklist for a superbubble running through its phases is now complete and <u>the wild rumpus can begin at any time.</u>*
>
> *- Jeremy Grantham, [Let The Wild Rumpus Begin](), 20 Jan 2022*

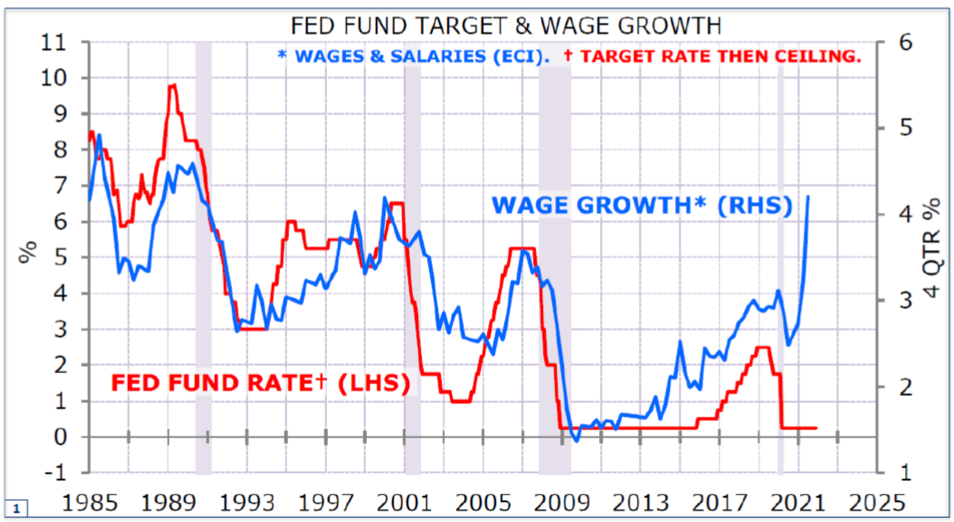
It is arithmetically a fact that the US market is in a superbubble (3-sigma or more upside deviation from trend) and it is also historically true that all superbubbles eventually burst. What has changed from a year ago is that the very conditions that helped engender the superbubble are being reversed in quick succession (tapering is on-going, lift-off begins in March and balance sheet reduction starts thereafter) and price action is signaling trouble like the tremors ahead of an earthquake.

<u>Superbubble: US stocks gone parabolic since March 2020…</u>

Fueled by a decade of easy money, and two years of insanely easy money…



Which the Fed says has to end



For those who want to see more evidence, please check out this publication by Bridgewater Advisors that comes to a similar conclusion with more rigorous analysis. They concluded the piece with *"On a Forward-Looking Basis, Macro Influences Are Continuing to Roll Over"*, which really is just a more euphemistic version of Grantham's *"The Wild Rumpus Can Begin at Anytime"*.

Moving Ahead

What does this mean for the Cypress Fund and for investing in general? Here are some thoughts on how to move ahead:

- At Cypress, we remain invested in real assets while aggressively hedging the portfolio
- For most investors, be extra-judicious when investing; raise cash at the margins
- If invested, prefer non-US over US stocks, value over growth, short over long duration
- Avoid the most speculative sectors, eg memes, SPACs, crypto; don't wait for the bounce
- A potential bright spot in 2022 – China

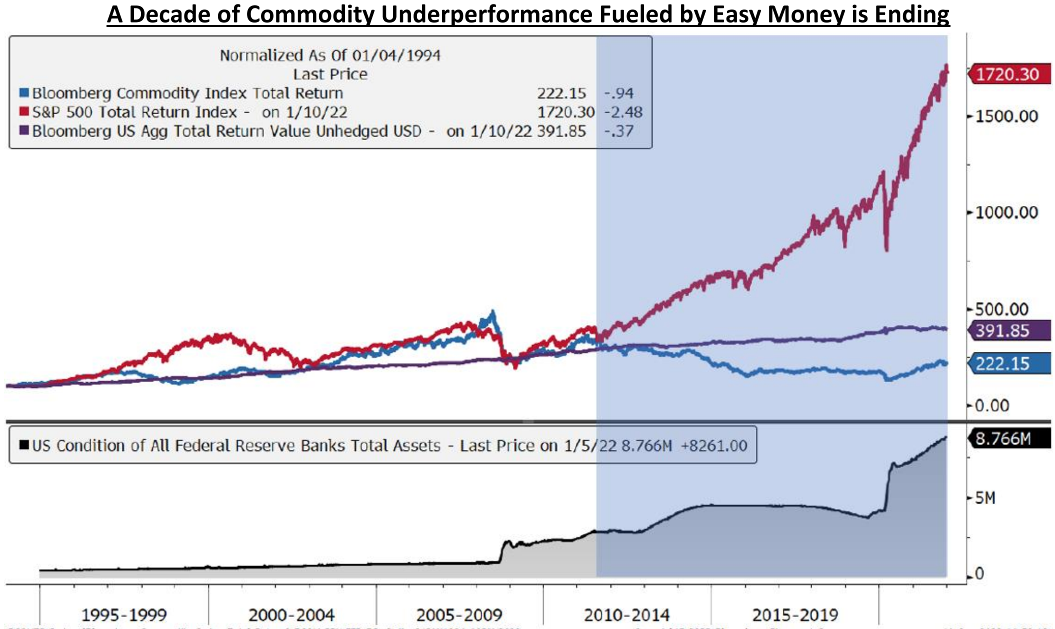
Let us touch on a couple of the above.

Cypress – Remaining Invested in Real Assets while Aggressively Hedging

We do not know if the market will experience a sharp correction but we see storm clouds ahead and we would rather be safe than sorry. In practical terms, we are keeping a higher level of hedges on, being more patient in our buys as well as trimming laggards in order to raise cash. Metaphorically, we are clearing the deck, battening the hatches and buckling ourselves in. Risk-on we are not.

Having said this, whether the storm comes next month, next year or not ever, we remain very bullish on real assets as an asset class. The fact is that we are in the early stages of running out of raw materials. We live on a finite planet with a limited amount of cheap oil, cheap copper, cheap nickel and Covid has laid bare the consequences when supply fails to meet demand. Climate change too has brought about heavy floods, serious droughts and higher temperatures, none of which make farming easier. As we have said many times in these pages, underinvestment in commodities will give rise to supply bottlenecks and shortages that will ultimately resolve only with much higher prices. Covid and climate change are merely the precipitating events. This is the world we live in and we have to get used to that. Investing in real assets is how.

A Decade of Commodity Underperformance Fueled by Easy Money is Ending



China – A Bright Spot in 2022?

China's business cycle appears to lead the West by 6-12 months. If you look at the evolution of China's long bond yield, you can see that it has led those of the rest of the world – they fell during the depths of the pandemic, rose sharply when the Chinese economy recovered and are sagging again. From a cyclical standpoint, they are coming out of an economic slowdown (which punished some segments of their stock market in 2021) prompted by a policy-driven deleveraging of their financial system. They are now transitioning to moderately stimulative monetary and fiscal policies at the same time as the developed world moves in the opposite direction of policy tightening. To borrow from another Bridgewater piece, these recent policy indications from China are favourable to risk-taking:

- On January 5, Premier Li said the government should implement "new and greater combined tax and fee cuts [in order to] ensure a stable start for the economy in Q1 [and] stabilize the macroeconomy."
- On December 27, the MoF reiterated that it would "strengthen the coordination and linkage of fiscal and monetary, employment, and other policies" and added that the government will "give play to the role of fiscal policy to stabilize investment and promote consumption."
- The PBoC recently added a new call to "take more proactive measures to boost support for the real economy" and "better stabilize the aggregate credit growth" as well as "bring down the overall financing costs for businesses."

We think that overweighting China makes sense.

Conclusion – You Can Choose Not to Care About Macro, But You Can't Choose to be Unaffected By It

Some investors have commented that they prefer when we focus on bottom-up, company-specific analysis instead of macro. Rest assured that this is still the foundation of our investment process. Having said that, it would be remiss of us not to have an eye on the macro environment and share our observations with you when we think it matters. A rising tide lifts all boats; it is also true in reverse. We may be at an inflection point.

We started 2021 wearing our risk-on cap but as the year progressed became increasingly concerned that developed world equity markets, especially US, are showing signs of weakness. The Fed's sudden pivot in November and subsequent escalation in hawkish rhetoric finally shifted us from the cautious into the bearish camp. Yes, even as we write this letter, markets are rallying strongly from recent lows. Yes, one can argue that equities typically fall only at the end, not at the beginning, of a hiking cycle. And yes, we can most certainly be wrong to think that we should pay for some downside protection. As optimists, this is what we have to say: Yes, we may sacrifice a few percentage points of returns by hedging for a correction that does not come, but even if this were the case, we are confident we will make them back when bullish market conditions return. We believe the market rewards the patient.

Finally, we remain extremely bullish the prospects for real assets investing. After a decade of underinvestment in energy, commodities, food and other asset-heavy businesses, the supply-demand picture is extraordinarily favourable to asset owners. Covid adds fuel to the fire with disruptions to supply chains; geopolitics is the final spark that can set off prices of real assets. Whether we like it or not, the seamless, just-in-time, hyper-efficient world we live in no longer is. If we are right, real assets and the companies we own will perform extremely well. If not, they will still do okay. We like our chances.

Once again, we are grateful to you and your family for your support. For those of you celebrating Lunar New Year, may the year of the Tiger be full of love, joy and success. Thank you for reading and we look forward to connecting soon.

Sincerely,

Yongchuan Pan
4 February 2022

Theme	Thesis	Upside	Risks
Nuclear/Uranium	• Growing acceptance of nuclear as source of carbon-free energy • Growing demand and falling supply for uranium • Priced below marginal cost of production	100-300%	• Larger amounts of secondary inventory than expected • Another Fukushima
Shipping	• Extremely favourable supply dynamics for tankers and LPG vessels (old fleet, few new build orders) • Stocks trade at discounts to NAVs with large dividends (>10%)	100-200%	• OPEC+ production cuts • Recession
Basic Materials	• Adriatic Metals trading at substantial discount to NPV • Heavy insider ownership with likely takeout by current shareholder • Leverage to silver price without paying for it	100-300%	• Country risk • Construction risk • Lassonde curve
Computing Power	• Surging chip and tin consumption due to increasing demand for compute – automobiles, IoT, defence • Demand not priced in at all at current multiples; huge exploration upside for free	50-200%	• Recession • Idiosyncratic company risks
Precious Metals	• Protection against inflation and fiat debasement • Under-owned by official sector/central banks • Potential alternative to bonds – producers trade at high and growing free cashflow yields	100-500%	• Strong economy with low inflation • Regulatory risk • Challenge from crypto
Clean Energy Transition	• Climate change is driving energy transition; this shift to cleaner energy will rely heavily on electrification • Own highest quality copper producers levered to higher prices with exploration upside	100-400%	• Recession • Idiosyncratic company risks
Oil & Gas	• Energy transition will take longer than expected; fossil fuel use will remain for decades to come • Own producers and offshore service providers pricing in much lower crude oil and natural gas prices than in the market	100-400%	• Recession • Regulatory risk
Farmland	• Growing demand for food and improving productivity driving higher yield for farmland and hence valuations • Overlooked asset class, 20-30% discounts to fair value, dividend-paying	50-100%	• Recession • Poor harvests / climate anomalies
Financing	• Own equity in structured financing vehicles • Substantial upside with very limited risk	50-100%	• Opaque and hard to analyze • Narrative too complicated for most investors