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	1.5%	11.5%	5.7%	4.0%*									24.5%

- **The Cypress Fund returned 5.7% in March and 4.0%* in April; year-to-date the fund is up around 24.5%.**
- **Strong performance in a few of our key holdings, substantial allocations to the resource sectors and hedging gains contributed to these numbers.**
- **However, we are worried that the financial storm is only beginning. Already high inflation will be compounded by war, with potential dire consequences on financial markets.**
- **We are therefore increasing hedge ratios as well as reducing gross exposures.**
- **We also discuss Alphamin Resources and Gold, existing exposures that we intend to add to despite broader market risks.**

Dear fellow investors,

The Cypress Fund returned 5.7% in March and an estimated 4.0% in April; year-to-date, the fund is up ~24.5%. Our strong performance this year can be attributed to i) company-specific factors, in particular Filo Mining (+38%) and Alphamin Resources (+35%) ii) our substantial allocations to the natural resource sectors and iii) hedging gains. In what has so far been an atrocious year for most asset classes, we are glad to have been able to navigate the choppy waters and deliver positive returns for our investors. Thank you for trusting us with the stewardship of your capital.

Alas, we worry that the financial storm is only just beginning. Regular readers may recall that we started voicing concerns about financial markets as early as August last year, concerns that we reiterated in our December and Year End Investor Letters. Even after the substantial price correction across most asset classes this year, we continue to see warning signs. In this letter, we highlight the inflationary impact of war, the torrid start to the year for fixed income investors and Bridgewater's warnings about equities. We then discuss how we are positioning the fund in response.

War is Inflationary

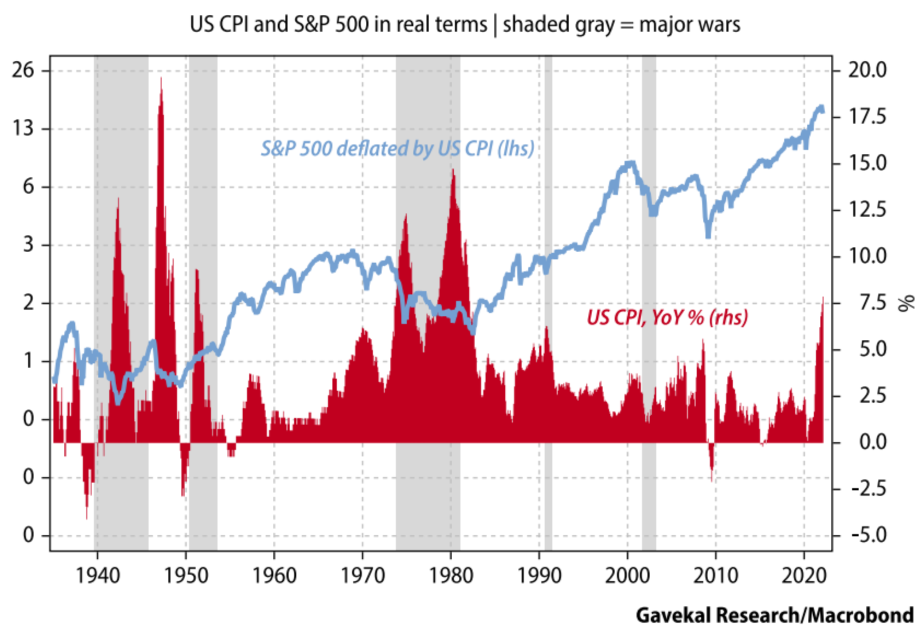
In our 2022 March Investor Letter, we touched on the fact that Russia is the most resource rich country in the world and that sanctions will therefore result in supply-driven price spikes. Below, we update the price changes in a number of commodities since. Note that the figures below show Feb-to-April month end price changes.

*April 2022 returns based on preliminary estimates

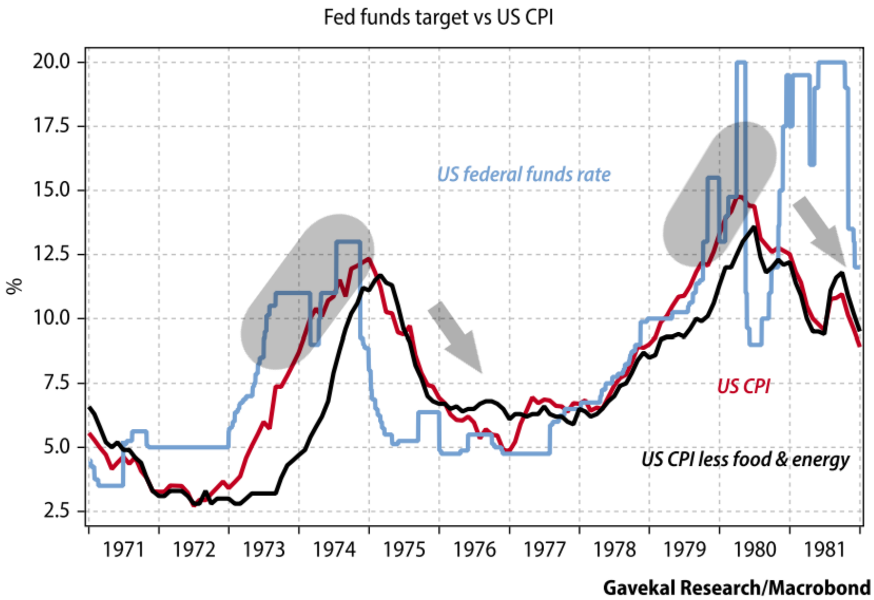
Product	Export Ranking	Value (US$ bn)	% Export Supply	Price Change
Crude Oil	#2	$ 123	13%	+9%
Refined Petroleum	#2	$ 66	10%	+24%
Coal Briquettes	#3	$ 17	14%	+19%
Natural Gas	#2	$ 16	16%	0%
Fertilizers	#1	$ 9	13%	+23%
Wheat	#1	$ 8	18%	+12%
Aluminium	#2	$ 5	10%	-10%
Timber	#2	$ 5	12%	-22%
Nickel	#1	$ 4	28%	+29%
Seed Oils	#2	$ 2	20%	+15%
Uranium Concentrate	#2	$ 0.1	11%	+9%

To quote Gavekal's Anatoke Kaletsky in his piece, "Investors Have Forgotten That War Means Inflation":

> *Even if the war ended tomorrow, which of course it will not, and even if the sanctions against Russia were lifted immediately, which is even more important financially and even more unlikely, the invasion of Ukraine will transform global economic conditions in ways that will resonate in the markets for years to come. This is because all wars are inflationary—and what is uniquely dangerous about this war is that its inflationary impact has hit at a moment when the world economy is exiting the Covid pandemic, with inflationary pressures already at a generational high.*



History (chart above) suggests that Kaletsky is right – wars are inflationary. Unfortunately, monetary policy cannot impact the supply side of the equation since central bankers cannot "print" more wheat. Instead, they hope that tighter policy eventually cools the economy sufficiently to dampen global demand. This comes with a lag, and as the following chart shows, nominal rates need to rise substantially above inflation before the inflation starts to decline. Rates are well below inflation today.



Worst Year Ever for Fixed Income Markets

The US fixed income markets are having their worst year ever. The Bloomberg Aggregate, a broad-based, investment-grade benchmark comprising treasuries, corporate bonds as well as MBS, ABS and CMBS is down 9.5% as of the end of April (chart below). As of May 6, the peak-to-trough drawdown for the Bloomberg Agg is 12.2%, for an asset class with historical volatility of under 4%. To put it in context, it would be akin to the S&P 500 (with historical vol of 15-16%) enduring a drawdown of nearly 50%. This is happening even though real rates are still deeply negative; imagine what would happen if central bankers raised front end rates *above* inflation as suggested in the previous section, ie +600 bps hike.

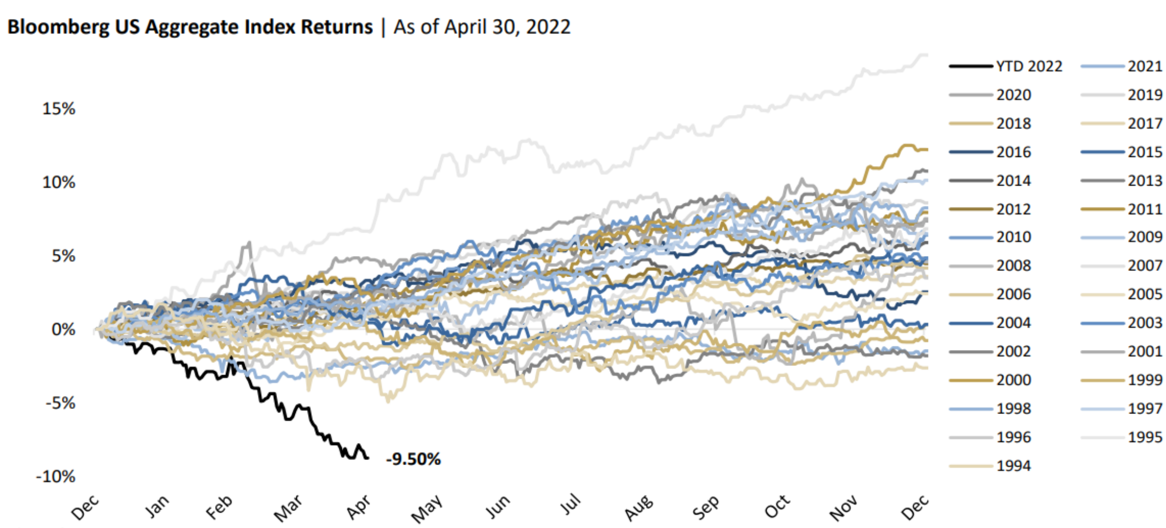


Figure 2
Source: DoubleLine, Bloomberg

The selloff in fixed income matters for a few reasons. First, fixed income markets are larger than equity markets. US fixed income markets total over US$ 50 trillion – this means more than US$ 6 trillion of wealth has been eviscerated in this market alone this year. Second, fixed income investors rely on leverage to boost returns, with typical borrow ranging from 60-70% of face value (for riskier bonds) to 95-99% (for investment grade bonds and treasuries). Being down 12% may not sound horrific to equity investors who employ little leverage, but if you are levered 5 to 10 times as a fixed income investor, such a drop translates into a 50-100% loss on capital invested.

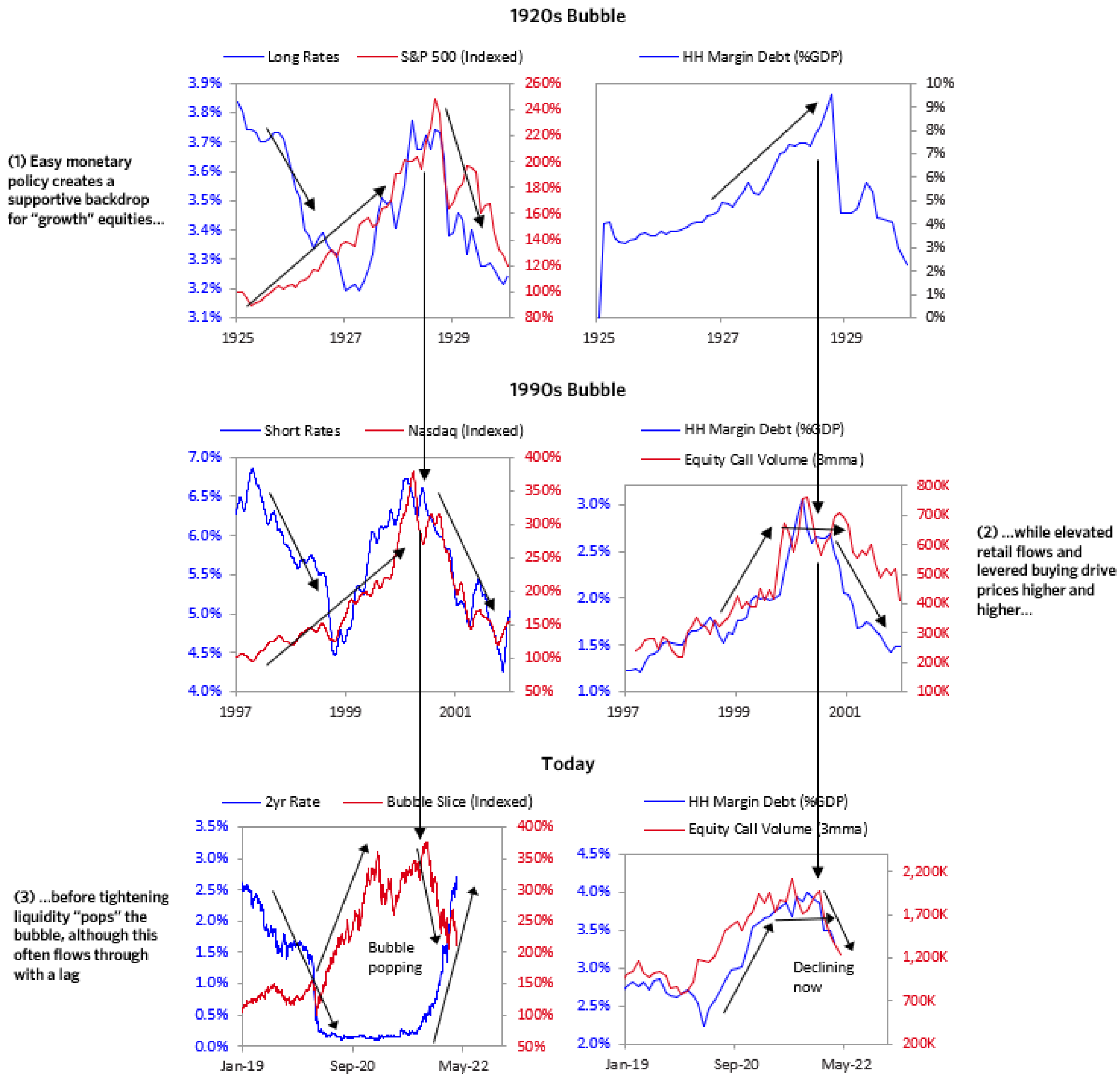
The selloffs in both bonds and equities do seem a bit over-stretched at this point, so it is possible that they bounce. However, as a responsible risk manager, should you not be reducing risk after such an unprecedented drop in bonds that took place along with a painful decline in stocks? Put differently, even if markets were to rise from here, it is likely that we see new supply coming to the market from investors who are thankful for the rally to get out of their positions. Until proven otherwise, we should be selling rallies, not buying dips.

Markets Today Resemble the 1920s and 1990s (Just As the Bubbles Were Starting to Burst)

In our 2021 Year End Investor Letter, we noted that both GMO's Jeremy Grantham and Bridgewater's Ray Dalio are bearish; they have been proven right so far and we encourage you to read their writings from earlier this year if you have not. Dalio followed up recently with a new LinkedIn Post, "The Popping of the Bubble Stocks: An Update". We quote:

> *In January the bubble indicator showed that a) the US equity market as a whole was at the edge of a bubble but not in an extreme bubble (i.e., 70% of the way toward the highest bubble, which happened in late 1990s and late 1920s) and b) the emerging tech companies (e.g., Tesla and Roku) were clearly in an extreme bubble…*
>
> *Since then, those bubble stocks popped. They declined by about a third over the last year—while the S&P 500 is about flat… Bubbles can take a long time to unwind (two years in the case of the 1929 bubble, one year in the case of the late '90s tech bubble) and typically go to the opposite extreme…In fact, US stocks in aggregate still look overvalued by our measures. History shows that once the popping begins, bubbles more often overcorrect to the downside versus settling at more "normal" prices.*

Dalio goes on to describe how every one of his six gauges of market bubbles suggest that US equities have started deflating. He also points out that the market dynamic today resembles that in the 1920s and 1990s – (1) easy monetary policy in the preceding years (2) drove increases in borrowing (margin debt) that helped create equity bubbles that (3) eventually pop when easy money is removed. Today, we are at (3).



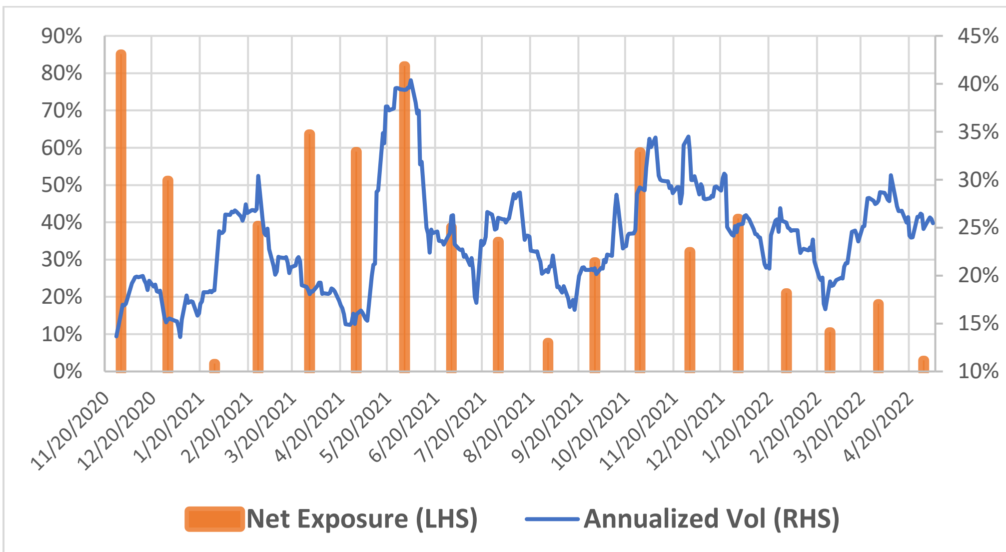
Inflation -> Compounded by War -> Bonds Weak -> Equities Weak

What do we make of this? After a forty-year slumber, inflation is returning with a vengeance. Inflation was borne of generous monetary and fiscal policy but is now growing on a diet of Covid and war-triggered supply-side constraints. This adds to central bankers' newfound resolve to fight inflation with tighter monetary policy, which has led to the largest ever selloff in US fixed income markets. This risk-off tone has spread to equities, rightfully so.

There is a saying in the game of Go, 逢危须弃, which can be loosely translated to *in times of danger, let go and wait for better opportunity*. We believe this is a time to play defense and be conservative when it comes to taking risk.

I) Keeping High Hedge Ratios / Reducing Gross Exposure

As you are aware, from time to time we hedge with index futures to manage portfolio risk. We adjust our hedges fairly often – the more optimistic we are in the short-run, the less we hedge and vice versa. From the chart below, you will observe that we have been reducing the fund's net exposure (orange bars; % long minus % short) since the latter half of 2021 as our worries grew. We are even more cautious today, hence we have effectively reduced our net exposure to 0%. Hedging helps us manage our portfolio's realised volatility (blue line); going forward we expect that we will need to maintain high hedge ratios in order to keep portfolio volatility contained (<30%). This is because it is likely that volatility across asset classes is going to stay high or even go higher.



In addition, we will also be reducing outright exposure to the market. In recent months, we have been running gross exposures of around 150%, approximately 80-85% longs against 60-70% shorts. We target to move our gross exposure lower to a range of 100-120%. We acknowledge that we could forgo some gains in the event of a market recovery, but we believe this is the right thing to do at this juncture.

II) Cautious Buying of Select Companies, eg Alphamin Resources

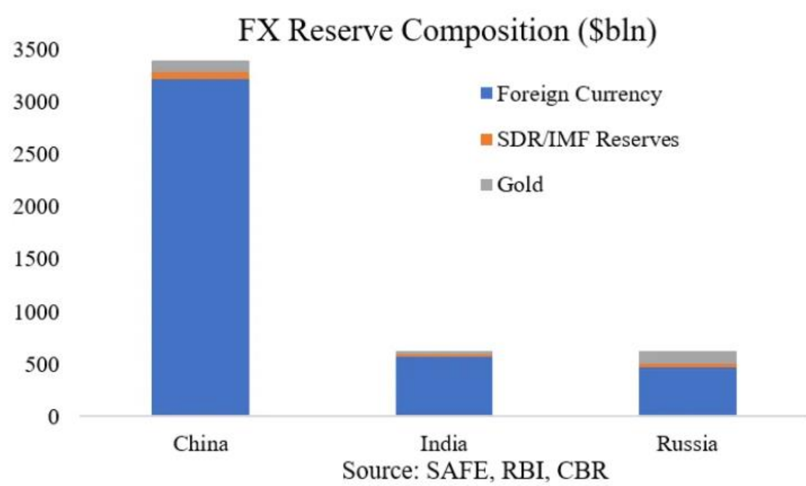
Despite our concerns, there remain pockets of opportunities where we intend to deploy capital. Alphamin Resources, which we wrote about in our 2021 March Investor Letter, is one of them. Since we first wrote about the company, Alphamin has increased tin production by over 30%, announced a maiden dividend in January, released extremely positive mineral resource estimates on their exploration asset (Mpama South) and produced record EBITDA in 1Q 2022 (30% implied EBITDA yield). While its price has more than doubled since then, the company continues to be very cheap from an earnings perspective, and this does not even factor in the high likelihood of growing its annual production by 65% in the foreseeable future. The company is obviously exposed to tin price volatility (which has also doubled) yet it is not difficult to see a future where the stock doubles from here (~CAD$ 2.50 to 3.00) as a function of multiple compression and resource expansion, even if tin price were to fall. Last month, Alphamin also kicked off a potential sale of the company, likely motivated by its largest shareholder's

(Denham Capital) desire to monetize its 57% stake. In the event of a sale, we think there could be a premium of 20-50% from current levels. While we would prefer to remain a shareholder for longer, this would not be a bad outcome.

III) Increasing Allocations to Gold

We wrote in our last letter how the war in Ukraine and the West's confiscation of Russia's foreign reserves means that sovereign nations must diversify their reserves as a matter of national security. This is in fact taking place. Last month, it was reported that Israel is reducing its allocation to USD and EUR, while adding to AUD, CAD, JPY and CNY. There were also rumours (now denied) that China's CNOOC is looking to exit operations in Canada, Britain and the US over fears that these assets may one day be subject to sanctions.

China and India, both of which abstained from the UN resolution to condemn Russian aggression, are enormously vulnerable to sanctions given their massive foreign reserves. A much larger gold allocation is necessary to safeguard themselves against the risk of sanctions; this will happen through increasing gold purchases and/or the price of gold going up substantially relative to fiat. Both will likely happen.



China and India hold only a sliver of their fx reserves in gold.

We already have exposure via gold miners; we intend to increase these allocations. We encourage you to consider investing in gold bullion as well – the only asset with no counterparty risk.

Conclusion

In our 2021 Year End Investor Letter, we shared the following thoughts on how to move forward. Below, we bolded the items we want to emphasize, while striking out views we no longer hold.

- 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~~
- **Buy gold**

We no longer recommend non-US stocks over US nor are we confident about China. On the former, the war has markedly shifted the calculus from making money to reducing risk and the US and US Dollar are by far the "safest" names from a relative value perspective. Europe is a clear loser from the war, higher inflation will hurt importers such as Japan and India, and emerging markets are always risk-on jurisdictions. The US may not be great but at least it is better than the alternatives. On the latter, China country risk is ratcheting higher as we write. The US State Department recently updated their webpage on US-Taiwan relations, removing prior language where they explicitly ruled of Taiwan independence. I doubt this change was made without high level approval.

May 3rd

U.S.-TAIWAN RELATIONS

The United States and Taiwan enjoy a robust unofficial relationship. The 1979 U.S.-P.R.C. Joint Communique switched diplomatic recognition from Taipei to Beijing. In the Joint Communique, the United States recognized the Government of the People's Republic of China as the sole legal government of China, acknowledging the Chinese position that there is but one China and Taiwan is part of China. The Joint Communique also stated that the people of the United States will maintain cultural, commercial, and other unofficial relations with the people of Taiwan. The American Institute in Taiwan (AIT) is responsible for implementing U.S. policy toward Taiwan.

The United States does not support Taiwan independence. Maintaining strong, unofficial relations with Taiwan is a major U.S. goal, in line with the U.S. desire to further peace and stability in Asia. The 1979 Taiwan Relations Act provides the legal basis for the unofficial relationship between the United States and Taiwan, and enshrines the U.S. commitment to assist Taiwan in maintaining its defensive capability. The United States insists on the peaceful resolution of cross-Strait differences, opposes unilateral changes to the status quo by either side, and encourages both sides to continue their constructive dialogue on the basis of dignity and respect.

?

May 8th

U.S.-TAIWAN RELATIONSHIP

As a leading democracy and a technological powerhouse, Taiwan is a key U.S. partner in the Indo-Pacific. The United States and Taiwan share similar values, deep commercial and economic links, and strong people-to-people ties, which form the bedrock of our friendship and serve as the impetus for expanding U.S. engagement with Taiwan. Through the American Institute in Taiwan (AIT), a non-governmental organization mandated by the Taiwan Relations Act to carry out the United States' unofficial relations with Taiwan, our cooperation with Taiwan continues to expand. Taiwan has become an important U.S. partner in trade and investment, health, semiconductor and other critical supply chains, investment screening, science and technology, education, and advancing democratic values.

The United States has a longstanding one China policy, which is guided by the Taiwan Relations Act, the three U.S.-China Joint Communiques, and the Six Assurances. Though the United States does not have diplomatic relations with Taiwan, we have a robust unofficial relationship as well as an abiding interest in maintaining peace and stability in the Taiwan Strait. Consistent with the Taiwan Relations Act, the United States makes available defense articles and services as necessary to enable Taiwan to maintain a sufficient self-defense capability. The United States continues to encourage the peaceful resolution of cross-Strait differences consistent with the wishes and best interests of the people on Taiwan

Once again, we recommend raising cash at the margins, avoiding the most speculative sectors and choosing short duration over long in fixed income space. Finally, we also encourage increasing exposure to gold, in particular gold bullion.

Thank you, stay safe and speak soon.

Sincerely,

Yongchuan Pan
9 May 2022