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%	3.7%	1.6%	-5.9%	-1.9%	1.0%	0.2%	-1.4%	4.9%	4.6%	27.5%
2023	-2.0%	-0.1%	-0.3%	-0.5%	-4.7%								-7.5%

- **The Cypress Fund has had a rough year so far, returning -7.5% year-to-date.**
- **Our bearish stance contributed the bulk of this decline. We were wrongfooted by the AI-led rally as some of our shorts are expressed through the Nasdaq.**
- **We discuss the fund's risk management framework and why we hedge with equity indices instead of single-names. We also share how we apply volatility and technical (cohort) analysis; our work still recommends that we adopt a cautious stance.**
- **On the long side, we discuss two familiar companies to demonstrate how real asset investing can offer very large upside (Okeanis: 3-9x, Alphamin: 2-20x).**
- **We touch briefly on Nvidia's meteoric rise, compare it to RCA in the 1920s and urge contemplation of Kipling's poem, If.**
- **Finally, we are excited to bring on Gabriel Lim as a full-time analyst this month.**

Dear investors,

2023 has so far been a challenging year for the Cypress Fund. As of May month end, our year-to-date performance is -7.5% as both longs and shorts underperformed. Given this, we want to delve into the drivers of our performance this year as well as provide more colour on the Cypress strategy, particularly with regards to hedging. Finally, we draw attention back to our core real assets strategy and emphasize the very substantial upside that we are positioned for.

Bearish Bias Ill Expressed via Nasdaq Shorts

Regular readers know that we have expressed concerns about the health of financial markets in many of our letters over the past 18 months. Alas, this caution has cost us this year. Our hedges, which typically comprise a portfolio of index shorts on S&P 500, Nasdaq 100 and Russell 2000, had too large a proportion in the Nasdaq (at one point 50% of hedges), which has surged his year.

To recap, at the beginning of 2022, we were primarily concerned about a newly-hawkish Fed and the impact of tighter monetary policy on the economy. As the year progressed, our worries grew as war broke out and inflation surged. By July, the S&P 500 was down over 20% for the year, a performance that historically preceded recessions over 70% of the time. For the remainder of 2022, markets traded in erratic fashion; more recently this March, we experienced the consecutive failures of Silvergate, SVB, Silvergate Bank and Credit Suisse.

Thus, for most of 2022 and 2023, we ran a portfolio that was high on cash and high on hedges. This strategy worked well last year as hedges contributed over 9% of our 27% gain; it worked less well in

2023, subtracting over 6% so far due to the Nasdaq's strong rally. Breaking out the contributions from our various index shorts, we see that the majority of our hedge losses came from our Nasdaq shorts.

Return Attribution As of May Month End (Gross)

Period	Longs	Hedges	*of which NDX*	Total
Jan	3.1%	-5.2%	*-2.7%*	-2.1%
Feb	-1.8%	1.9%	*0.2%*	0.1%
Mar	2.0%	-2.3%	*-2.0%*	-0.2%
Apr	-0.9%	0.5%	*-0.1%*	-0.4%
May	-4.7%	-1.2%	*-1.7%*	-5.9%
YTD	**-2.5%**	**-6.1%**	***-6.2%***	**-8.6%**

The fact is that we were positioned poorly in our hedges this year – we had not foreseen the relentlessness of the AI-induced rally and have been slow to swap out of our Nasdaq shorts into the other indices. We do not want to predict nor be exposed to how high the AI-rally can go, so we will continue to reduce our Nasdaq exposure in our short book.

Cypress: Implicitly Long Real Assets, Short Financial Assets

We often get asked why we express bearish views by shorting equity indices instead of single-names, which is more common amongst the equity long/short hedge fund community. Let us take this opportunity to explain the Cypress strategy in more detail, especially with respect to hedging.

I) Cypress Strategy: Investing in Real Assets in a Supportive Macro Environment

Investors sometimes categorize us as a long/short equity fund since we express our views through listed equities. In fact, apart from expressing our ideas through equities, the Cypress strategy is actually quite different from the typical long/short fund.

	Long/Short Fund	Cypress
Instrument	Equities	Equities
Turnover	Low to High	Low
Leverage	Medium to High	Low
Net Exposure	Low	Variable
Short Book	Alpha Shorts	Hedges
Sector/Geography	Narrow	Broad (All Real Assets)

Roughly speaking, long/short funds communicate that "*We are skilled at finding good companies and bad companies. By buying the good ones and shorting the bad, we construct a market-neutral portfolio that can generate attractive returns in all market environments"*. Obviously, there are exceptions to this characterization but this is then expressed by focusing on a specific sector or geography and employing high leverage and sometimes frequent trading.

On the other hand, the Cypress strategy is better described as "*We are real asset investors. We invest in companies that own outstanding assets, backed by solid management, trading at reasonable prices. We* *believe a portfolio of such companies, hedged with derivatives from time to time, will offer extremely attractive returns in the current macro environment*".

Why do we think the current macro environment is supportive? As we recently shared in our March 2023 investor letter:

> *…we need to own real assets [because]:*
>
> *i) the real world is structurally short real assets because of capex underinvestment*
> *ii) the financial world is short real assets from the perspective of portfolio allocation*
> *iii) real assets (especially energy) are an excellent inflation hedge*
> *iv) energy transition will substantially increase demand for real assets (critical minerals)*
> *v) real assets are in the part of the capital cycle where forward returns are likely to be high*

Given this structurally bullish view, it would not make sense to hedge our real assets "beta" by shorting single-names in the same space. Instead, diversified instruments like the various equity indices are more suitable since they allow us to hedge market risk while retaining real assets exposure. No doubt, there will be timing risk, since our single-name longs and our index shorts will not always move in tandem. Over the long term however, assuming we are right on our underlying macro call (real assets are undervalued to financial assets), we will be richly rewarded.

How richly? As much as 7-fold or greater returns in the coming years. In case you think we are just being bombastic, consider the ratio of the GSCI Index to the S&P 500 (chart below). As we are implicitly long real assets and short financial assets, this ratio serves as a proxy for our underlying macro view. During the last real assets bull market (1998 to 2008), this ratio surged more than 7x from lows of 0.1 to over 0.7 thanks to a China-led commodity boom. The next ten years then saw it collapsing back under 0.1 as the old economy lost favour to the new. But just as bear markets follow bull markets and vice versa, we believe the last ten years of structural underinvestment will birth a resurgence in real assets investing. We are just at the very early innings and there is a long way to go.

Comparison of GSCI/SPX Ratio to Cypress Since Inception

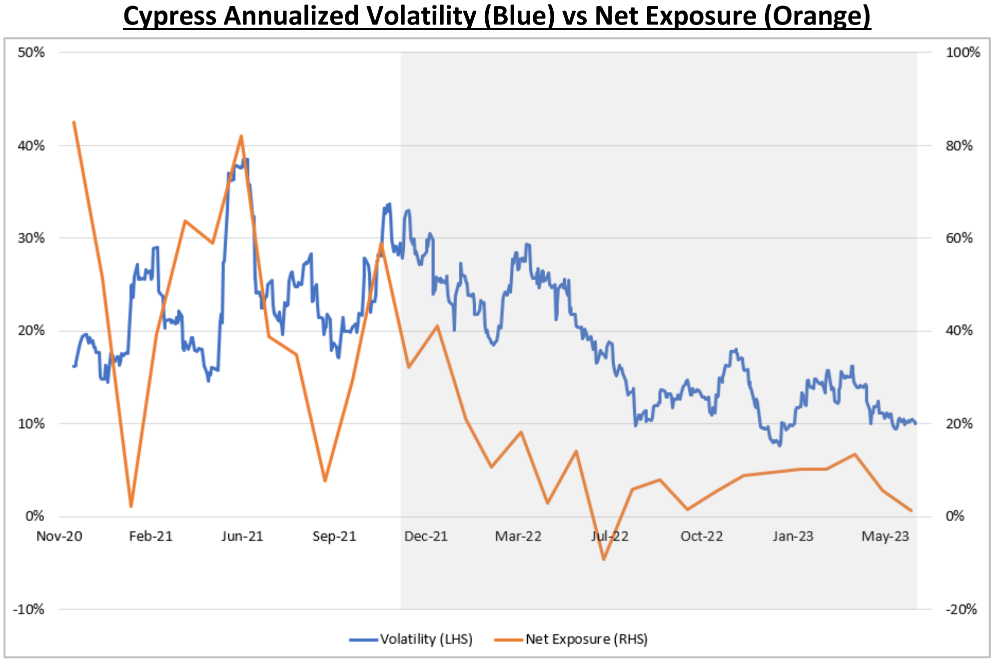
Period	GSCI/S&P Ratio	Cypress
Trough – Peak	+167%	+165%
Drawdown	-41%	-24%
Forward Upside	> 7x	???

Ratio of GSCI/S&P

II) Volatility: Imprecise but Useful Proxy for Risk

All bull markets are accompanied by violent corrections, the one unfolding will not be an exception. How then do we make sure we ride this bull to maximum gains? By being resolutely focused on downside risk mitigation when markets are not conducive for risk taking. At Cypress, this is achieved by lowering portfolio volatility through a combination of raising cash and increasing hedges. By explicitly targeting a lower volatility (imprecise though it may be as a risk proxy), we reduce both upside potential and downside risk. In a weak market, we believe the latter is more important than maximizing upside.

Cypress Annualized Volatility (Blue) vs Net Exposure (Orange)



As can be observed from the chart above, in response to what we saw as a challenging risk-taking environment, we began to lower portfolio volatility from end 2021. Portfolio volatility declined from the mid-20s to the teens since that time, which is implemented by reducing net exposure/putting on hedges. When the investing environment improves, we will adjust to a higher level of volatility by increasing net exposure/taking off hedges.

III) Applying Technical (Cohort) Analysis on Equity Indices

The natural question that follows is how do we assess if the current environment is conducive for risk taking or not? In short, we rely on both fundamental and technical analysis. The former is easier to understand, the latter sounds like voodoo. Let us try to demystify.

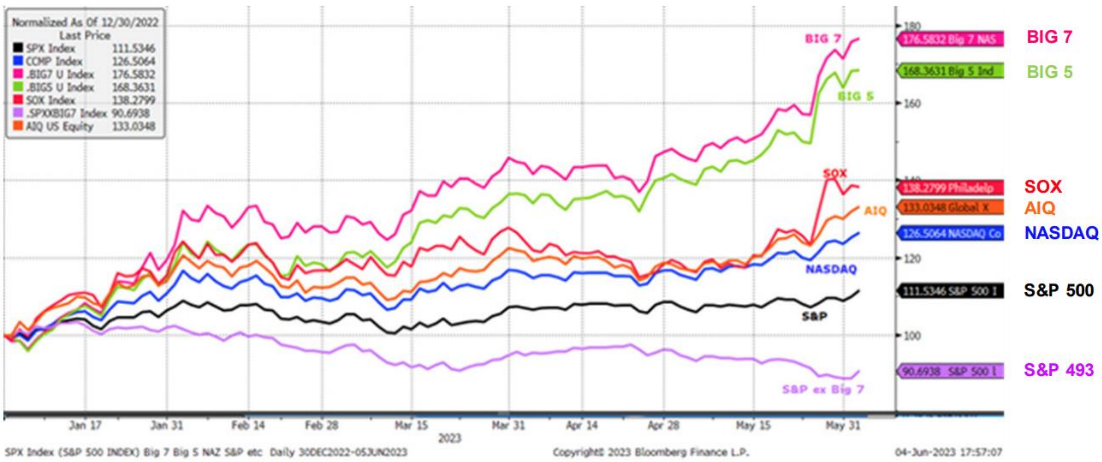
On the fundamental front, the outlook is fairly bleak. To list but a few concerning developments (see appendix for accompanying charts):

- Sharp and large decline in bank deposits after SVB
- Borrowings from various Fed liquidity programs exceeding 2008 levels
- Demand for corporate loans falling to 2008 levels
- Delinquency rates for credit cards exceeding 2020, approaching 2008 levels
- Falling federal tax receipts, which often coincided with or preceded recessions
- Headline inflation falling but high; sticky inflation remains elevated
- Rail freight dropping akin to previous economic contractions
- China's recovery after zero-Covid beginning to sputter

In addition, we make use of technical or cohort analysis to supplement our fundamental views – do they corroborate what we think the fundamentals are saying about the "health" of the economy? Because the equity indices are comprised of hundreds of companies, they are uniquely suited for cohort analysis. With over 500 constituents in the S&P, it is possible to stratify the index across various dimensions or cohorts to develop a more nuanced view on the market. Using this approach, we see that while the headline index appears strong, at the cohort level weakness is apparent. This is analogous to how humans can look and feel great on the outside even as a malady is developing within; by the time the illness becomes apparent, it may be too late.

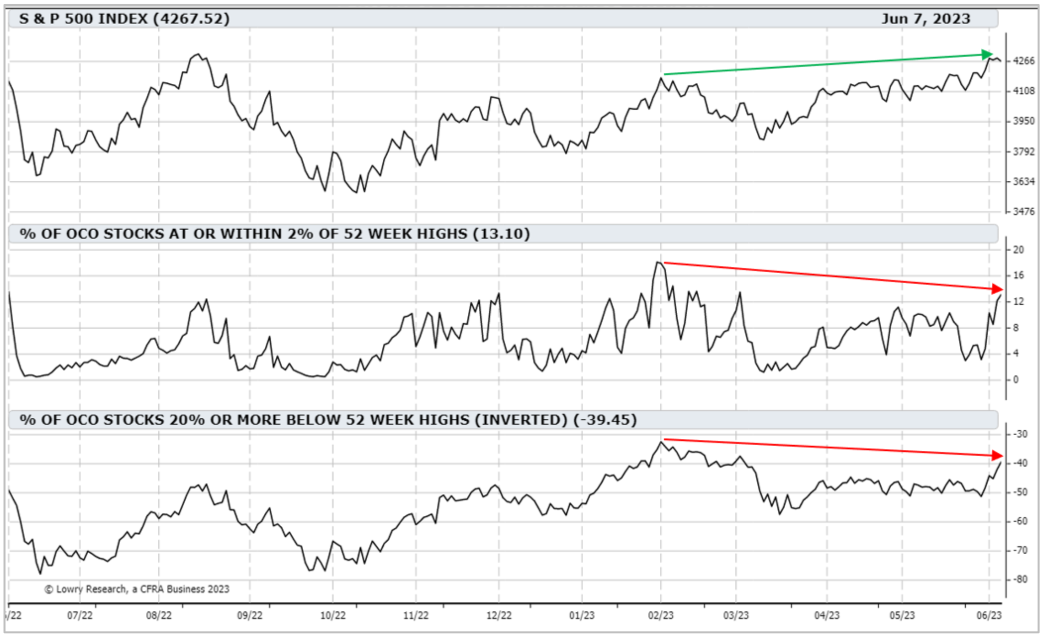
An example of cohort-based analysis is lack of breadth in the market rally this year, ie the majority of gains has been driven by a small handful of companies. Historically, bull markets tend to be accompanied by market strength across the board; on the other hand, a narrowing of leadership tends to be associated with market tops.

Year-To-Date Performance across Cohorts



Narrow Markets Tend to Precede Weakness

Another example of cohort analysis is to stratify the S&P 500 by strong (within 2% of 52-week highs) and weak (20% or more below 52-week highs) performers. As the index made new highs this month, we would expect the number of companies trading well to also be increasing, while those performing poorly to be contracting. Instead, both show a deterioration versus their respective figures in February this year, which was the previous peak in the S&P. This is commonly known as a divergence, ie something that is happening that should not be. In fact, nearly 40% of the index is in bear-market territory (-20% from highs), which is not typical in a robust market advance.



Many other cohort-based indicators we look at say the same thing, ie the market is weaker than it appears, which corroborates our fundamental assessment. Obviously, none of these methods are foolproof but for the time being, caution seems warranted.

Playing Offense: Multiplying Our Money Investing in Real Assets

Since inception, we have made 2.5x our money, with annualized returns of 23% and a 1 Sharpe. Risk management/hedging has been a key ingredient, hence we have made that the focus of this letter. But just as important is how we play offense, so let us return to a couple of familiar names on the long side.

I) Okeanis Eco Tankers: 3-4 Bagger in 2-3 Years

We first wrote about Okeanis Eco Tankers in 2020 when the stock was trading at a price of around NOK 60+. Then, we forecasted a range of outcomes from the conservative (-50%) to our base case (+100%) to the bullish (+460%). In 2021, we wrote about the firm again – the price had appreciated to NOK 90+ and we highlighted the potential for another 160% upside to around NOK 250. In a span of 3 years since our first purchase, the position has returned 3x our invested capital, and nearly 3.5x if we include dividends.

Green → Buying; Red → Selling

Today, Okeanis trades close to fair value at roughly 1x NAV – our thesis that a favourable supply-demand situation would lead to significantly higher charter rates and share price has proven correct. Bulls also argue that the current high-rate environment can persist for years since there are few tankers newbuilds hitting the water. Should this persist, Okeanis could trade well above NAV – Frontline traded at a valuation of over 3x NAV in the last tanker bull market. Might there be another 3x upside from here for Okeanis?

While this is a possibility, we also acknowledge that the risk-reward is no longer as compelling as before, hence we have lightened our exposure to the name. Should the price trade lower, we are likely to add to our position again. By positioning in the right companies/sectors and allowing enough time for the situation to develop, multiple-fold gains (3 to even 9x) are possible.

<u>II) Alphamin Resources: 2x Base Case, 20x Bull Case</u>

Alphamin Resources is another company that we have previously written about. We think it is very cheap, offers attractive leverage to tin prices and provides indirect exposure to growth in AI/EVs/cloud computing. Our base case is that the company at least doubles from here, with the potential to return 20x in a tin bull market.

To recap, tin is considered a critical material due to its extensive use in modern technologies and concerns about supply risks. On the demand side, it is primarily used as a component of solder (due to its low melting point, “wetting” properties and resistance to corrosion), which is critical in electronics manufacturing. The shift towards electric vehicles, development of the Internet of Things, demand for more data centers from cloud computing and advancements in AI all contribute to an increase in demand for computing power and hence tin. On the supply side, much of the world's supply comes from a relatively small number of countries (China, Indonesia, Myanmar) and hence prone to disruption; recently the latter two respectively announced export bans and suspension of mining operations.

Specifically, we like Alphamin because it is one of only three western-listed tin miners, owns the highest grade tin mine in the world (one of the lowest cost producers) and recently announced expansion of its mineral resource by over 50%. Despite the marquee quality of its asset and the supportive macro outlook, the company trades at a 4x EV/EBITDA multiple, in part because of its location (Congo), mining as an unloved industry and volatility of tin price. While these are no doubt risks, our base case is that the development of their Mpama South mine means EBITDA will grow substantially so even if multiples remain unchanged, there is 1.5-2x of upside. In a bull scenario, using lithium miners as a case study (where both commodity price and valuation multiples go up), we can see EBITDA growing 3-4x and EV/EBITDA multiples stretch as high as 30x, implying 20x or greater from here.

	EBITDA (CAD)	EV/EBITDA	Market Cap (CAD)	Upside
Current	$250m	4x	$1b	NA
Base Case	$375m - 500m	4 - 6x	$1.5 - 3b	1.5 - 3x
Bull Case	$750m – 1b	20 - 30x	$15 - 30b	15 - 30x

A Word on Nvidia

Nvidia (and AI) has been on everyone’s lips as its stock is up over 160% this year. At one point, the company reached a trillion-dollar market cap after forecasting $11 billion in revenue for the next fiscal quarter. For argument’s sake, annualizing this figure means $44 billion in revenue over the following 12 months. Doubling it for the next year gives us $88 billion in revenue 2 years out, which at today’s market cap of $957 billion translates into a price to sales multiple of 11x! In the meantime, the Semiconductor Industry Association just announced a 21.6% year-on-year *fall* in semiconductor industry sales, lamenting that the market remains in a cyclical downturn.

Year-to-Year Sales			
Market	Last Year	Current Month	% Change
Americas	11.97	9.51	-20.5%
Europe	4.47	4.57	2.3%
Japan	3.99	3.89	-2.3%
China	16.67	11.43	-31.4%
Asia Pacific/All Other	13.85	10.55	-23.9%
Total	**50.94**	**39.95**	**-21.6%**

Quoting an investor that we follow:

> *The most exaggerated "tech" bubble took place in 1928-29 when RCA captured the imagination of every speculator with a pulse. At times the stock's trading volume accounted for up to 20% of total NYSE volume. At the stock price peak, in September 1929, the company was "valued" at $665 million. Meanwhile, sales had climbed from $65 million in 1927, to $102 million in 1928, to $182 million in 1929. Thus, at the peak of the RCA frenzy, the company was "valued" at "only"*

3.65 x SALES. By 1974, annual sales grew to$4.6 billion, yet the stock price bottomed that year at 38, about 1/3 its 1929 high.

Nvidia seems outrageously valued, but history suggests it can get even more so. At times like this, we remind ourselves of Rudyard Kipling's poem, If. We hope you enjoy it as much as we do:

If you can keep your head when all about you
Are losing theirs and blaming it on you,
If you can trust yourself when all men doubt you,
But make allowance for their doubting too;
If you can wait and not be tired by waiting,
Or being lied about, don't deal in lies,
Or being hated, don't give way to hating,
And yet don't look too good, nor talk too wise:

If you can dream—and not make dreams your master;
If you can think—and not make thoughts your aim;
If you can meet with Triumph and Disaster
And treat those two impostors just the same;
If you can bear to hear the truth you've spoken
Twisted by knaves to make a trap for fools,
Or watch the things you gave your life to, broken,
And stoop and build 'em up with worn-out tools:

If you can make one heap of all your winnings
And risk it on one turn of pitch-and-toss,
And lose, and start again at your beginnings
And never breathe a word about your loss;
If you can force your heart and nerve and sinew
To serve your turn long after they are gone,
And so hold on when there is nothing in you
Except the Will which says to them: 'Hold on!'

If you can talk with crowds and keep your virtue,
Or walk with Kings—nor lose the common touch,
If neither foes nor loving friends can hurt you,
If all men count with you, but none too much;
If you can fill the unforgiving minute
With sixty seconds' worth of distance run,
Yours is the Earth and everything that's in it,
And—which is more—you'll be a Man, my son!

Conclusion

Last but not least, this month we also welcome Gabriel Lim to the team as a full-time analyst. Gabriel previously interned with us and recently graduated from Singapore's Nanyang Technological University with double first class honours in Accounting and Business. He will be helping primarily with fundamental research and financial modelling and we are excited to have him join us.

It has been a rocky start in 2023 as our caution has cost us. While we are not convinced that the bear market is over, we also believe that if in fact a new bull market has already begun, we will more than participate given the substantial upside offered by the companies we are invested in. Thank you for your support and patience during this period. As always, do not hesitate to reach out and we look forward to connecting soon.

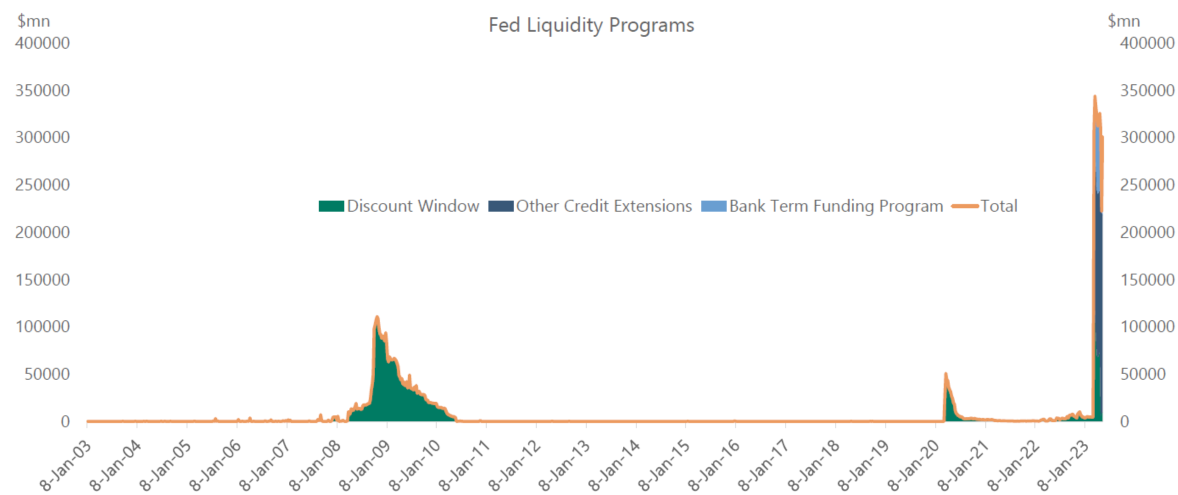
Sincerely,

Yongchuan Pan
14 June 2023

Appendix

Sharp and large decline in bank deposits after SVB

Borrowings from various Fed liquidity programs exceeding 2008 levels



Source: Federal Reserve Board, Haver Analytics, Apollo Chief Economist.

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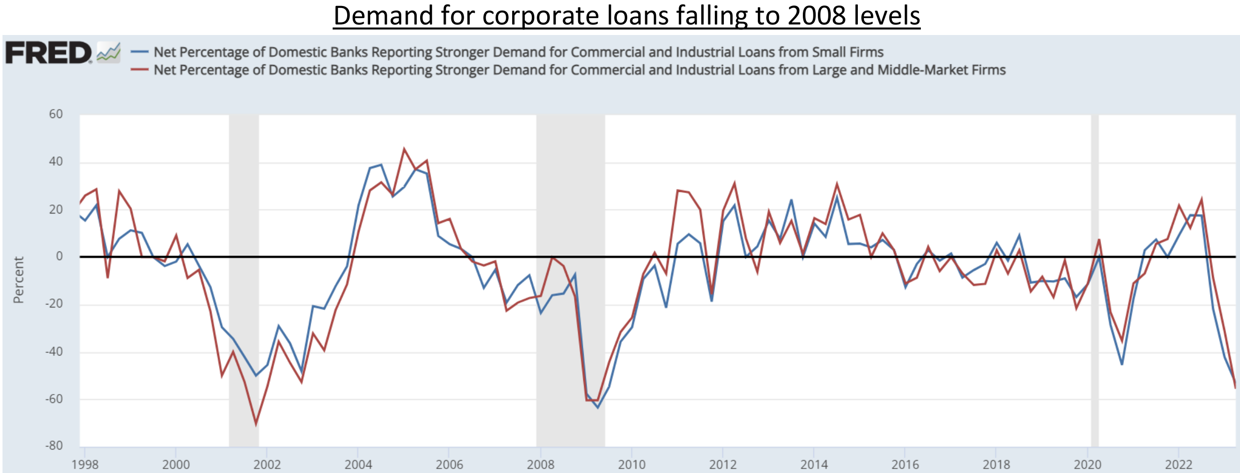
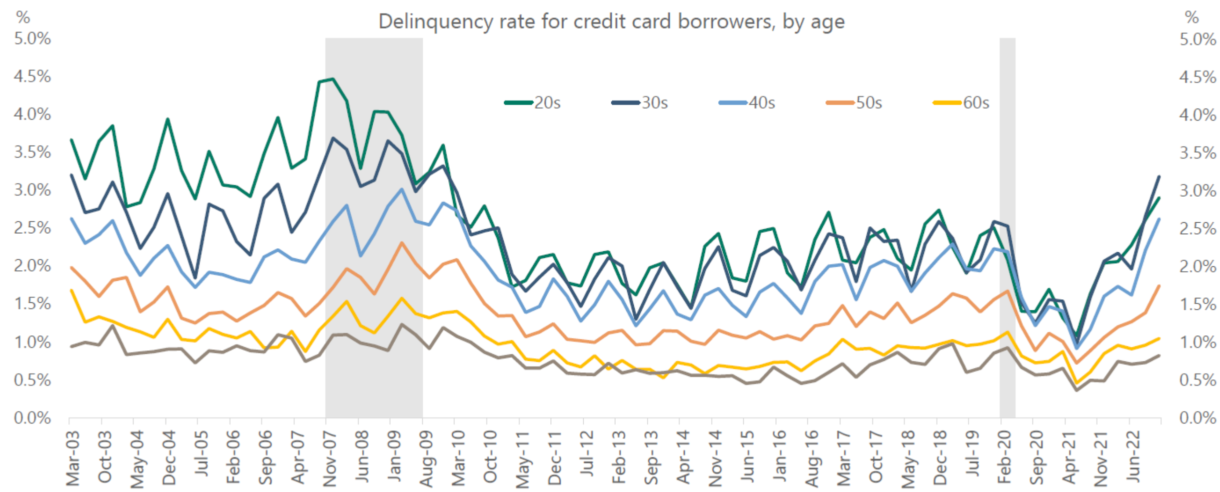
Demand for corporate loans falling to 2008 levels

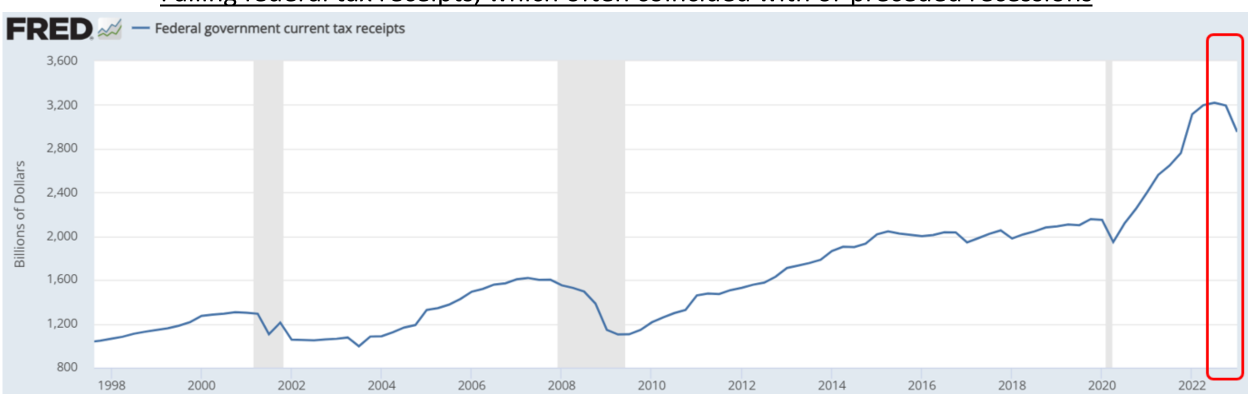


Delinquency rates for credit cards exceeding 2020, approaching 2008 levels

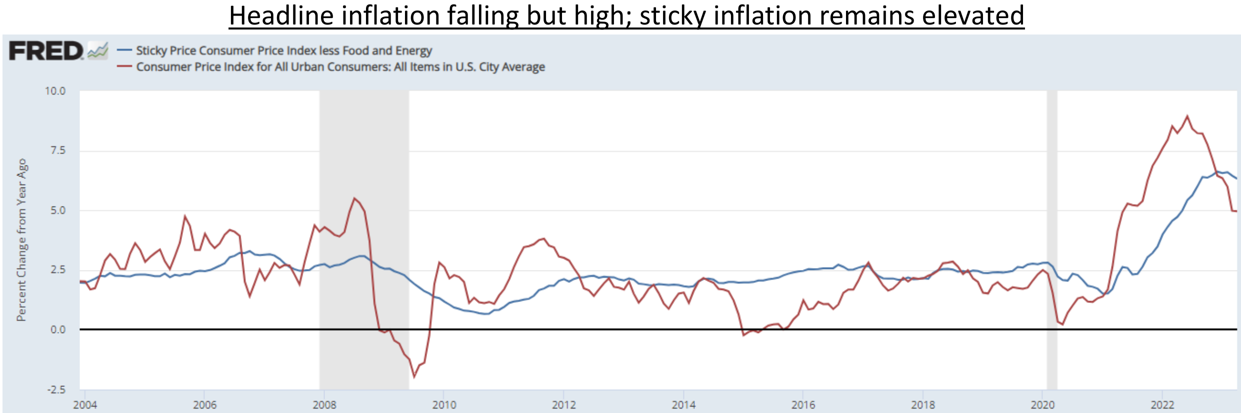


Source: New York Fed Consumer Credit Panel / Equifax, Apollo Chief Economist

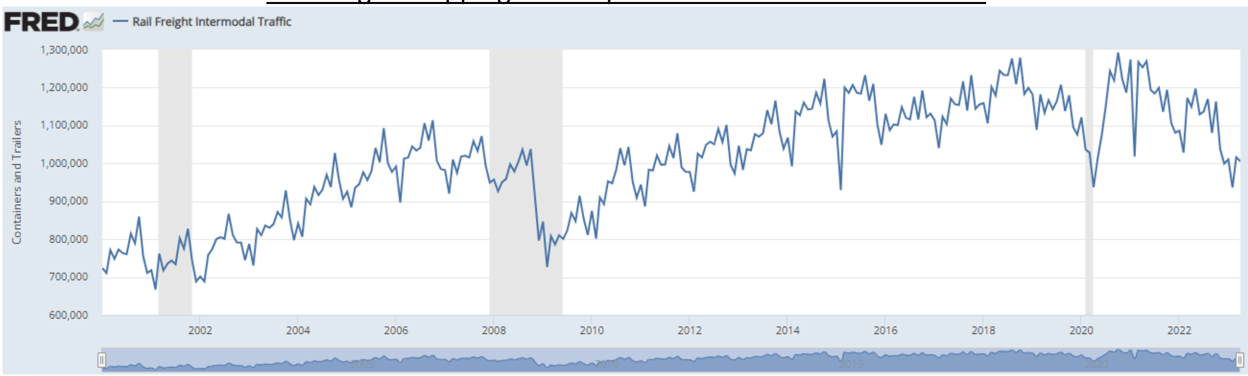
Falling federal tax receipts, which often coincided with or preceded recessions



Headline inflation falling but high; sticky inflation remains elevated



Rail freight dropping akin to previous economic contractions



China's recovery after zero-Covid beginning to sputter