

<u>True Portfolio Diversifiers – Dipsea Capital April 2021 Commentary</u>

The Dipsea Capital Fund returned 0.67% in April, 2.75% year-to-date, and 7.44% to partners for the last twelve months. The S&P 500 gained 5.34% and the Nasdaq bounced back, briefly exceeding its February high of 14,095, before giving back some of this gain before month end.

Both realized and implied volatility were very subdued throughout April. The VIX index fell to 16 through mid-month before rising modestly to 19 at month end. Given this environment, we focused on volatility strategies to collect premium, particularly in index trading, and complemented this with upside directional plays in various single-names. Tesla was our top single-name winner for the month, contributing 19 bps on a gross basis. During April, Tesla's convexity picked up substantially which we capitalized on with a volatility strategy by selling spreads with the long leg typically at a strike price 20% away from the underlying (at-the-money value) at an implied volatility of 80% on average and the short leg 50% away at double this level (160%).

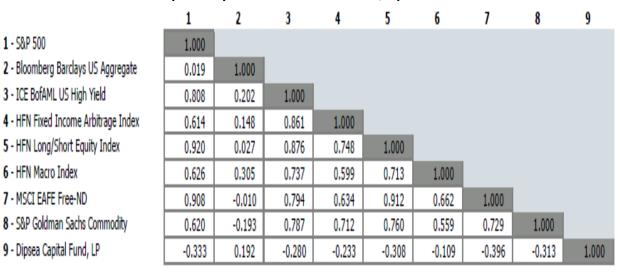
Index trading accounted for 40% of April's return, with the remainder coming from single-names. Dipsea's net market exposure averaged +2.1%.

Strategy Thoughts

At this time of sky high valuations many investors are considering how to protect their portfolios with truly diversifying investments. In last month's letter we discussed Dipsea's factor exposures on the basis of portfolio holdings analyses which indicate that Dipsea's returns are not due to any significant known and quantifiable source of systematic return.

As a follow up to this, we wanted to share the below table, which shows Dipsea's correlation to the S&P 500, fixed income indices, a broad commodity index, and several strategy-specific hedge fund indices.

Dipsea Capital Correlation Matrix, April 2021



Source: Evestment

In brief, Dipsea has been negatively correlated to everything except the Barclays Agg — an investment grade bond index — to which Dipsea exhibits a low correlation. Dipsea shows its strongest negative correlation to the S&P 500 and the MSCI's EAFE index of developed international stock markets (excluding the U.S. and Canada). In addition to these, Dipsea's correlation since inception to the MSCI World Index is -0.47 and to the J.P. Morgan Global Aggregate Bond Index -0.04 (BarclayHedge). Please refer to our February letter for further commentary on Dipsea's lack of correlation to fixed income and the volatility investors are currently experiencing in interest rates.

We believe Dipsea Capital demonstrates the qualities that portfolio diversifying investors seek, namely 1) no beta to market indices or other holdings, 2) no correlation to the same, and 3) positive convexity when markets correct.

Market Observations

We found it intriguing to read as another sign of the times that despite equity valuations being at all-time record levels, private equity firms are engaged in selling portfolio companies to themselves with increasing frequency. Such transactions accounted for 87% of private equity secondary market sales last year, up from 68% in 2019, and have doubled in deal value in 2021. According to the April 28th Reuters article, "A growing number of private equity firms are establishing new funds to buy portfolio companies from funds they already control." It makes us wonder, can such transactions truly be fairly priced? And what is driving this development, could it be a scarcity of attractive new deals? In our view that is a sobering thought in the present deal-driven environment. We are glad to offer investors a strategy with no capacity constraints, full monthly liquidity, and completely transparent, market pricing.

We remain appreciative of our investors' trust and support and look forward to continuing to serve your portfolio needs with our dedicated efforts.

Sincerely,

Christopher Antonio

Chief Investment Officer and Founder