	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD	S&P 500	HFRX Market Neutral	Avg Gross	Avg Net
KCM Market Neutral																	
2016			0.23%	-0.01%	1.61%	-1.61%	0.68%	1.83%	2.15%	0.73%	-2.76%	0.07%	**2.85%**	13.82%	-3.37%	79%	3%
2017	1.80%	-1.33%	0.33%	1.65%	0.91%	1.08%	-1.25%	5.96%	-2.80%	-0.96%	-1.66%	1.54%	**5.10%**	21.83%	1.74%	170%	6%
2018	4.08%	1.26%	0.99%	2.05%	1.61%	1.25%	-0.63%	2.23%	0.47%	-4.58%	-0.01%	0.18%	**9.02%**	-4.38%	-3.17%	188%	8%
2019	3.77%	1.99%	4.78%	1.59%	5.88%	-4.25%	3.15%	2.90%	-0.92%	-0.13%	-1.95%	-1.86%	**15.43%**	31.49%	-1.85%	174%	7%
2020	1.32%	-0.48%	-5.98%										**-5.20%**	-19.60%	-7.80%	153%	9%
Inception To Date													**28.95%**	40.17%	-13.86%		
Annualized													**6.42%**	8.62%	-3.59%		
KCM Long/Short																	
2016				0.47%	0.29%	-0.93%	2.24%	1.54%	1.96%	0.04%	-1.16%	1.09%	**5.62%**	9.26%		39%	39%
2017	0.96%	0.52%	0.95%	4.32%	2.47%	-1.67%	1.92%	2.13%	-0.59%	1.03%	0.24%	1.76%	**14.83%**	21.83%		82%	64%
2018	4.81%	-1.33%	-0.63%	0.60%	5.09%	3.24%	1.56%	2.47%	0.33%	-7.47%	1.00%	-2.79%	**6.39%**	-4.38%		99%	54%
2019	7.08%	2.68%	6.85%	3.41%	2.35%	-1.11%	3.86%	2.00%	1.06%	-0.91%	0.11%	-0.14%	**30.40%**	31.49%		122%	40%
2020	0.65%	-0.95%	-13.05%										**-13.32%**	-19.60%		105%	38%
Inception To Date													**45.86%**	34.55%			
Annualized													**9.90%**	7.70%			
KCM Long-Only																	
2018										0.00%	0.42%	-1.26%	**-0.85%**	-9.04%		20%	
2019	5.22%	3.10%	3.68%	3.41%	0.01%	0.74%	1.97%	-1.06%	1.68%	-1.84%	1.93%	0.34%	**20.70%**	31.49%		68%	
2020	-0.91%	-6.10%	-19.62%										**-25.21%**	-19.60%		81%	
Inception To Date													**-10.49%**	-3.83%			
Annualized													**-7.12%**	-2.57%			

Source: Interactive Brokers LLC

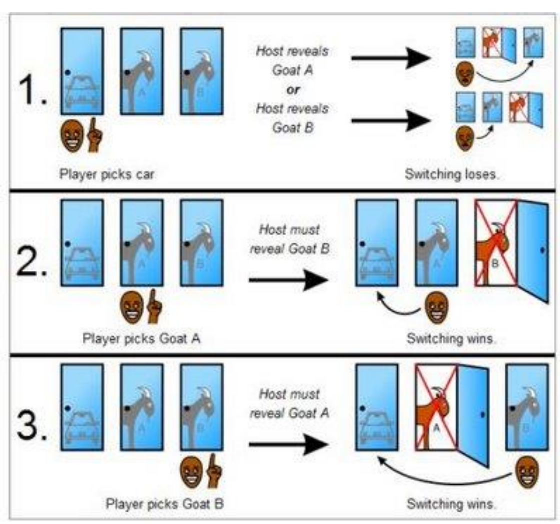
4.16.20

Dear Investor:

The **Kuleana Market Neutral** composite declined (5.98%) in March versus an (12.35%) decline for the S&P 500 total return index. The (5.98%) loss compares to an HFRX market neutral index decline of (5.93%). Over the past 12 months, the portfolio has returned (1.33%) versus an HFRX decline of (8.99%). Winners in March include short CBRL (-60% to position exit) and short PRDO (-28%) offset by declines in VRRM (-52%) and WEX (-44%).

The **Kuleana Long/Short** composite fell (13.05%) in March and has returned (3.78%) over the past year. The **Kuleana Long-Only** composite fell (19.62%) in March and has returned and returned (19.74%) over the past year.

MORE GOAT THAN "GOAT"



A column in *Parade Magazine* in 1991 posed a hypothetical question about the game show *Let's Make a Deal*.[1] A contestant chooses one of three closed doors. Behind one door is a new car. Behind the other two doors, a live goat. After the contestant selects a door, the host opens one of the other doors he knows to have a goat behind it. The contestant is offered a chance to switch to the remaining closed door or keep her original choice. What should she do?[2]

It may seem like a 50/50…there are two doors left. But that ignores conditional probability. In the picture at right, there are three permutations. Her initial choice has a 1/3rd chance of winning the car. When one of the doors is opened to reveal a goat, choosing to switch doors leads to winning the car in 2 of the 3 scenarios. The optimal strategy is to *always* switch to the other closed door.

[1] https://www.youtube.com/watch?v=c1BSkquWkDo
[2] https://priceonomics.com/the-time-everyone-corrected-the-worlds-smartest/

There are behavioral factors in play including the endowment effect ("I picked door #1, I like door #1") and regret minimization ("if I switch doors and lose, I'll be upset"). No matter, the optimal strategy is to always switch doors.

We all know markets are more complex than a game like this. Imagine for a moment there are 1,000 doors. Monty starts opening them one by one, revealing goat after goat. When do you choose to switch to another option…after he opens 998 doors? 700 doors? 200 doors? Or do you stick with your original choice? This is difficult to answer when switching doors is the approach to security selection and gross/net exposure during a shock like this.

Let's open some doors and see some goats:

- January 22: videos surface showing lockdown in Wuhan, a metro area of > 11m people.[3]
- January 31: the US moves to restrict air travel from China into the US
- February 5: Diamond Princess cruise ship is quarantined as the virus spreads among passengers[4]

On February 19, the S&P 500 hit an all-time high during a decent 4Q19 corporate earnings season. Do you want to switch doors yet? Dig a foxhole and sell everything not bolted down? Let's see some more goats:

- February 21: initial European lockdown of an area with over 50,000 people in Lombardy, Italy[5]
- March 2: Seattle nursing home outbreak says the virus is on American soil[6]
- March 9: sharp decline in stocks triggers circuit breaker and a 15-minute trading halt for the first time since 1997. The circuit breaker would trip again on March 12th, 16th and 18th
- March 19: shelter in place order in California

On March 23, the S&P 500 hit its recent intraday low, down ~35% from its peak. Is now the time to switch doors? Go to 100% cash and wait for the vaccine? More doors are opening all the time:

- March 3: FOMC cuts the Fed Funds rate 50bps to 1-1.25%
- March 15: FOMC cuts the Fed Funds rate 100bps to 0-0.25%
- March 23: Fed announces new measures to provide liquidity to credit markets
- March 27: Congress passes and the president signs the $2 trillion CARES Act
- April 9: Fed announces $2.3 trillion in additional stimulus including the purchase of corporate bonds

The S&P 500 proceeded to rally ~30% off its lows through April 14th. Do you switch doors now? If so, to what…fear of missing out and a fervent belief that this too shall pass? Or do you wait for economic gravity to take hold?

Wherever reality ends up, we are comfortable with the uncertainty. As our investment process is unchanged, some insight into our actions might be instructive. Which doors did we open and which did we leave shut?

- From Nov 2019 – Feb 2020, we liquidated approximately 25% of our gross long exposure prior to the market's peak. Most of these investments we held from 1-4 years where we trimmed or sold positions with less favorable risk/reward or thought our thesis was wrong. This didn't save our results in March, but seemed prudent based on the risk/reward of each position.
- We didn't panic sell on the lows, but let the gross exposure naturally deflate as our long investments declined along with our shorts. Instead of pushing all-in, we preserved dry powder…even if our gross seems low with the short-term hindsight bias of a +30% bounce in the S&P.
- We covered shorts instead of pressing. Similar to early 2009, stocks priced to go out of business that actually stay in business can trade like deep out of the money call options on their very survival. We exited a few shorts too early (OSW in late February) and got lucky with our timing on others (CBRL in mid-March).

[3] https://twitter.com/conflictsw/status/1220069758005121025?lang=en
[4] https://www.cdc.gov/mmwr/volumes/69/wr/mm6912e3.htm
[5] https://en.wikipedia.org/wiki/2020_Italy_coronavirus_lockdown
[6] https://www.kiro7.com/news/local/report-dozens-kirkland-nursing-facility-reporting-symptoms-that-might-suggest-coronavirus/2YXV65ZP6VBSZDVX53SUWXLYYU/

The market is forward-looking. To extend the metaphor, which doors open up next?

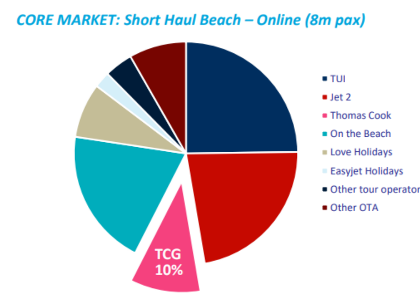
- **Early data points don't line up with the liquidity-driven euphoria of a V-shaped recovery**[7]
    - A payment processor we spoke to recently suggested that 65% of transactions at grocers are debit cards. Over the past two weeks, only ~10% of his grocery transactions are debit-based…implying the consumer is strapped for cash and needs revolving credit to make ends meet.
    - Restauranteurs sound hyperbolic when they say we will "never see another buffet in Vegas." But they suggest of the ~ 1.25m restaurants in the US we will settle around 900k as many disappear.
    - Data on advertising has recovered a bit from the shock of late March, but is far below peak levels.[8]
- **Earnings season for 1Q20**. Optimism or pessimism depends on your frame, but we will hear:
    - How bad was late March? How bad is April? Is your balance sheet strong enough?
    - No guidance for Q2 or the full year. 10-Q filings for March quarters may be delayed to late June.
- **Earnings season for 3Q20**. Does the rubber meet the road this autumn? Wall Street seems to understand that 2Q20 will be abysmal, but expects fundamentals to turn sequentially into 2H20. Is there enough patience to wait for a return to "normal" or is the bigger risk the reality of economic weakness?
- **Resolution to public health crisis**.

Instead of playing armchair epidemiologist, I hope this provides a real look at our approach. Research and analysis lead the way. The more doors we can open, the better.

PORTFOLIO UPDATE

Over four years in business, we have attempted to cut off losses when we are wrong ('fail early, fail small'). One goal is to maintain a good ratio of profits from our largest winners versus losses from our largest losers. Since inception, the top 5 winners in our market-neutral portfolio contributed ~33.7% to returns while the top 5 losers detracted ~8.3%. This ratio of ~4:1 seems okay. But what happens when the world changes quickly?

We continue to own shares of On the Beach Group plc ("OTB"), an online travel agent listed in the United Kingdom. We think this asset-lite, high ROIC business is a share gainer in what had been a growing market. Its advantage versus peers includes dynamic packaging of beach holidays (think London to Marbella). With > 70% of traffic to its site organic or branded, OTB doesn't need to buy many Google keywords and acquires customers for far cheaper than peers who have only 20-30% organic traffic. OTB's market share has grown from 9% in 2011 to 22% in 2018. Simply put, OTB is the low-cost leader with good tech.



As an old boss said **"when the story changes, get out."** COVID changed the story. Did we get out? No. We leaned on our process, evaluating five scenarios and employing a sizing ladder that helps us try to optimize P&L. We shorted other travel-related businesses, but not in enough size. While business ground to a halt, OTB's stock fell from 432p on February 21 to an all-time low of 140p on March 16th. If one of our goals is to avoid blowups, why did we sit on this one at a medium position size? It's Europe, it's travel…sell sell sell, right?

We were adding to the position at 161p in mid-March. The case for OTB's long-term share gain is more intact now:

- OTB has £99m in net cash on its balance sheet and no debt. Importantly, this is split between £55m in corporate cash and £44m in customer deposits for future travel, held in a trust account. Competitors do *not* separate out deposits, instead using them for marketing and working capital. As customers come knocking for a refund, OTB has the cash while its competitors need a bailout and/or are going bankrupt.
- With an industry-leading cost structure, OTB can achieve a run-rate on pared-down costs of < £2m per month. With cash on the balance sheet and a £50m revolver, OTB could weather well over a year of 'zero' business before liquidity becomes an issue.
- With 70%+ of its traffic via organic channels, no inventory commitment to hotels or airlines and low variable costs, OTB will be nimble whatever the reopening looks like.

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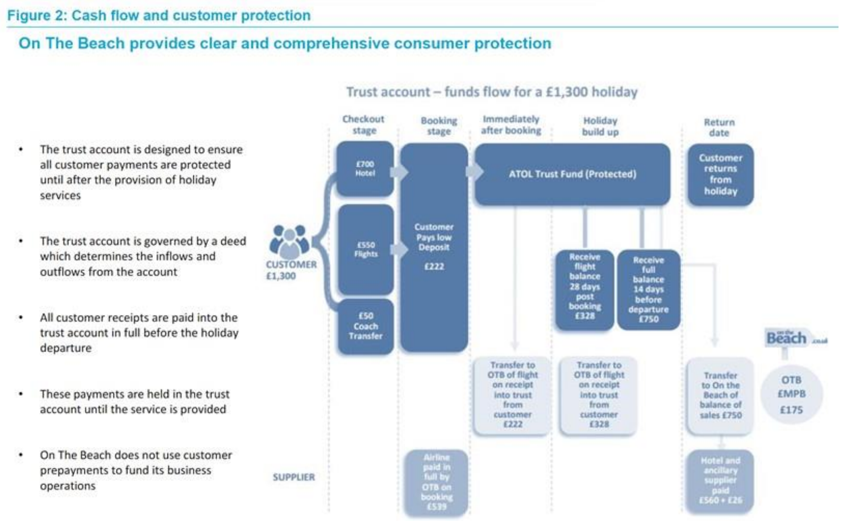
[7] https://www.gsb.stanford.edu/insights/1930s-depression-was-great-one-might-be-greater?fbclid=IwAR2YCAg59S25uX4NOunuzz_fuPv5ZTRqvNYsqNv1-TBlWXxUspfnnJy05ew
[8] https://go.within.co/retail-pulse/?utm_source=Facebook&utm_medium=covid19&fbclid=IwAR2FwS2vuJooKbpfKwGcx_05f62B2_cBjyU-zDqUKkkScRhJTky73GDQmvc

The chart below shows cash flows for an OTB holiday. What may have looked dowdy or too conservative a few months ago is now the right thing to do by customers and will lead to market share gain for OTB.



On its lows, OTB was valued as if it were going belly up. If you think Britons will sun themselves on Spanish beaches next summer, OTB will be a relative and absolute winner. If not, they will still be the last man standing. At a reasonable 15x normalized Free Cash Flow, OTB would be a > 500p stock compared to its April 14th price of 250p. While a painful mark-to-market near-term, this is a risk we are happy to take with a long horizon.

FIRM UPDATE

My 2-year old twins are not yet in school. With a business to focus on, I wasn't watching much sports. My closest neighbor is a mile away. My family has been lucky. If I can do anything to help yours, let me know.

Regards,

Tim

Tim Schenk

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Investment advisory services offered through Kuleana Capital Management LLC, a registered investment adviser.

Performance table footnotes:

1: KCM Return reflects the total return including deduction of investment advisory fees, brokerage or other commissions and any other expenses that a client actually paid. They depict performance without adjusting for the effects of taxation, but are adjusted to reflect sales charges and ongoing fund expenses. If adjusted for taxation, the performance quoted would be significantly reduced. Performance does not include reinvestment of dividends or other earnings.
2: Standardized Returns for the S&P 500 assume reinvestment of dividends and capital gains.
3: Inception date March 1, 2016 (Market Neutral), April 16, 2016 (Long/Short), October 22, 2019 (Long-Only)