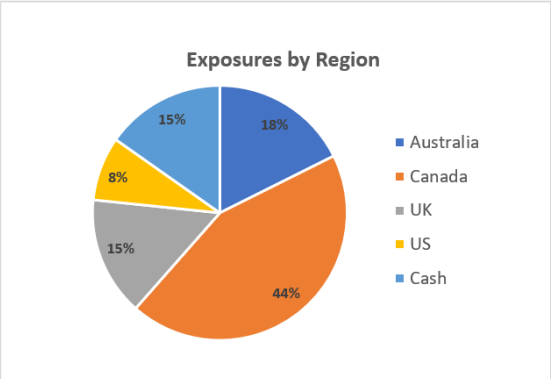
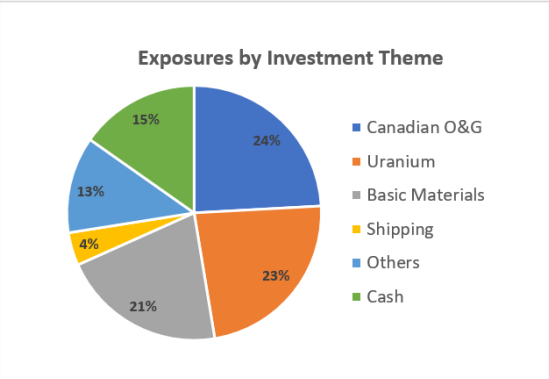
Dear fellow investor,

For the year of 2019, your portfolio generated a return of 14.4% over the nine months since inception in March 2019. This was achieved with an annualized volatility of 9.2% and a Sharpe ratio of 2.1. The fund showed negative correlation to typical benchmarks like the S&P 500 (-14.4% correlation) and MSCI EAFE (-15.8% correlation), hopefully providing some diversification benefits to the rest of your investment holdings. The return profile has been lumpy, with small contributions for most of the year and more substantial performance in the latter two months as some of your investments re-rated upwards. This is to be expected given the nature of our distressed asset-backed investment strategy, and we believe we will experience similar lumpy performance numbers going forward. We have also been lucky in 2019 to not experience material drawdowns; however, pullbacks are obviously inevitable. Accordingly, we expect portfolio volatility to pick up and Sharpe ratio to decline.

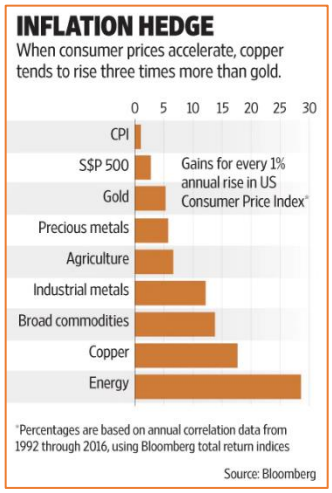
Moving ahead, we continue to see value in the various investment themes below, notably nuclear energy/uranium, Canadian oil and gas companies and basic materials, hence your portfolio will continue to overweight companies in these sectors. We have also been studying new investment themes, including US MLPs and precious metals; we will provide more updates in time to come.

Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	2019
0.21%	0.52%	5.45%	-4.04%	0.19%	0.03%	0.98%	-3.91%	7.50%	7.37%	**14.42%**





Recap



The Ternary Cypress Fund looks for companies that display the dual characteristics of i) being in distress while ii) possessing robust asset-backed balance sheets. By building a portfolio of such companies that are trading at big discounts to verifiable net asset values, we build a portfolio with good downside protection, while still offering substantial capital upside. The very nature of our investment strategy means that the bulk of your investments will be in asset-heavy, cyclical industries that follow a cycle of wealth creation followed by capital destruction before a recovery that precedes the next wealth creation phase. Our objective is to find the industries that are close to the end or have exited the trough of the cycle and then select the resilient survivors that are most likely to thrive in the next phase. You will also observe substantial exposure to resource-related companies. While not intentional, we are encouraged that these sectors have historically provided good inflation protection, a matter that is surely of increasing concern to you given the inflationary and unprecedented policies adopted by central banks around the world. We think these companies will likely outperform if inflation picks up. Below, we delve into a few of the investment themes and companies that your portfolio is invested in.

Category	Portfolio Weight	2019 Returns
Canadian O&G	24.1%	8.28%
Uranium	23.3%	0.02%
Basic Materials	20.9%	3.89%
Shipping	4.2%	0.22%
Others	12.3%	1.56%
Hedges	NA	1.25%
Cash	15.2%	-0.80%
Total	**100%**	**14.42%**

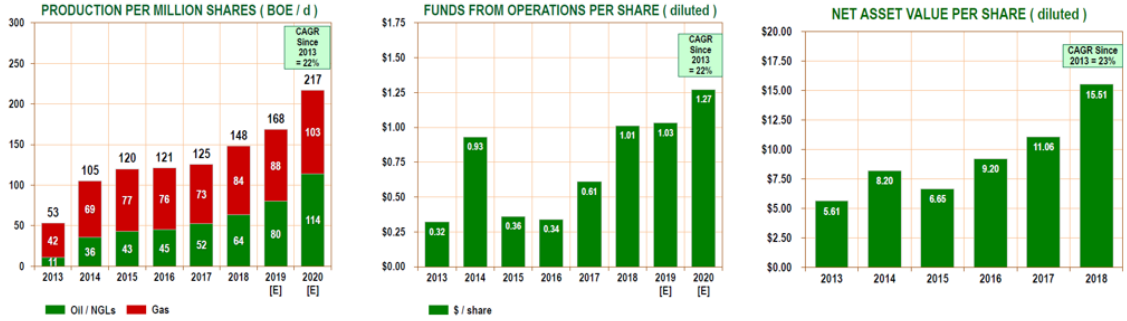
Canadian Oil & Gas

A substantial percentage of your portfolio (24.1%) is invested in the Canadian oil and gas space because of historically cheap valuations in 2019. The space has recovered over 50% from the lows in 3Q19, contributing a healthy 8.28% to our bottom-line. Despite the recovery, shares of profitable companies are still trading at substantial discounts to risk-adjusted reserves. We continue to stay invested as we still see potential for more than 100% returns from today's levels.

The oil and gas sector in Canada has been decimated in the last two years as a result of pipeline concerns, political opposition and general investor strike against the fossil fuels industry. In particular, because nearly 80% of Canadian production comes from landlocked Alberta (which relies on pipelines to bring product to market) concerns about pipeline capacity resulted in a collapse in Canadian crude pricing. In addition, a number of foreign oil and gas companies also took the decision to leave Canada, further exacerbating capital flight from the industry.

Kelt Exploration is a company in your portfolio with more upside. They are an independent upstream oil and gas producer based in Calgary, Alberta. They trade on the Toronto Stock Exchange under the ticker KEL with a year end 2019 share price of CAD$4.87 and a market cap of CAD$915 million. Our holdings have a cost basis under CAD$3.50. In a nutshell, we like Kelt because the company has a long track record of growing production (53mm BOE in 2013 to 168mm in 2019), cash flow (FFO/share of $0.32 in 2013 to $1.03 in 2019) and reserves (NAV/share of $5.61 in 2013 to $15.51 in 2018). Insiders are aligned with investors and currently own 15% of outstanding shares, including notable purchases from President David Wilson of over CAD$4 million in 2019. Despite clearly adding value for shareholders over the years, share price is down nearly 70% from the highs in 2014. Using the same NAV multiple of 1.9x from mid-2014 would imply a share price of nearly CAD$30, or 6x year end 2019 price. Admittedly, this was when crude oil was trading over $90 a barrel and we are in a different environment today so CAD$30 is not our base case forecast. Nevertheless, given the geopolitical risks ahead of us, we continue to like Kelt Exploration and see it as a core holding that gives us excellent upside optionality while still trading cheap to book.

i) Long track record of improving company fundamentals (production, cashflow, reserves)



ii) Versus lackluster share price performance

Uranium

The renaissance of nuclear energy is a core view we hold and represents 23.3% of your portfolio holdings. These investments made a negligible contribution to YTD performance of 0.02%. We see signs that the market is starting to turn, and strongly believe that this space can multiply your capital many times (5-10x) in the coming years.

Today, uranium oxide (the precursor to enriched fuel rods used by nuclear reactors) trades at $25/lb, well below marginal cost of production, which is closer to $50/lb. This is largely a result of the Fukushima incident in 2011 that led to a number of countries phasing out nuclear power, cutting demand for uranium and sending uranium prices crashing. Despite this, nuclear power still accounts for around 11% of global electricity needs and is one of the cleanest, cheapest, most reliable and safest sources of energy available. Unless the nuclear power generation is going away, prices have to rise in order to satisfy market demand.

In 2019, the price for uranium oxide (U3O8) fluctuated between $24-$29/lb, well below where we expect the market to eventually trade. As a result, our holdings in uranium miners and uranium ore have not moved materially from our cost basis, hence the negligible contribution to overall performance. On a more positive note, we have observed substantial rise in prices for uranium conversion and enrichment (U3O8 needs to be first converted to UF6 and then further enriched to produce fuel rods), a sign that demand for fuel is picking up. We also know that utilities will have to return to the market over the next two years to contract for new fuel supply as their old contracts dating from 2011/2012 mature. While it is difficult to predict when the market will turn, we believe that the confluence of events suggest that an inflection point is near.

Item	Year End 2019	% Change 2019
U3O8 Spot	$25	-12.3%
Conversion	$22.25	+57%
SWU	$47	+14.6%

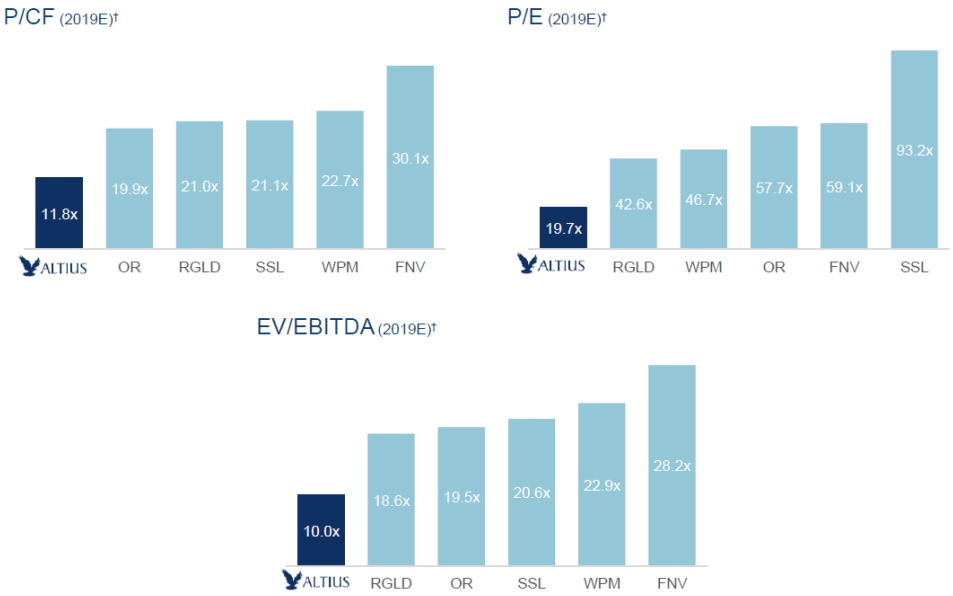
Basic Materials

About one-fifth of your portfolio is invested in companies that can be classified under 'Basic Materials', contributing 3.89% to 2019 returns. These companies are involved in the discovery, development and processing of raw materials that are essential for modern life. We continue to see opportunities in this sector and will cautiously adjust portfolio weights as opportunities present themselves. Below, we discuss one portfolio company, Altius Minerals Corporation.

Altius (TSX: ALS, CAD$11.96) is primarily a royalty/streaming company with a diversified portfolio of royalties and streams from operating mines generating revenue from copper, zinc, nickel, cobalt, potash, iron ore, coal and renewables. Royalties and streams are in effect financing arrangements between the owner of the royalty/stream and a mine, where the owner provides upfront capital in exchange for an ongoing revenue share in the asset (a royalty) or a right to purchase the production at a preset price (a stream). Mine operators work with royalty/streaming companies to diversify their capital sources, especially at times when capital is scarce, while royalty/streaming companies like the long-life, option-like nature of the resultant royalty/stream.

We like Altius because it is a countercyclical play on base materials without taking on the development and the operational risks borne by mining companies. At current valuations, Altius is trading at around 1x NAV, so we get to own the underlying assets at a similar entry yield (~15%) to where they were acquired by Altius. In addition, shareholders are paid a dividend yield of 1.8%, insiders own 5.9% of the

company and the company has a share buyback in place for approximately 4.2% of the outstanding shares. The upside for investors include a re-rating of the company (precious metal royalty and streaming companies trade at multiples that imply 80-200% upside for Altius), a rally in base metal and potash prices and extension of mine lives (at no cost to Altius). Your portfolio has a 2% exposure to Altius – we intend to add to this stake under CAD$11 and reduce it closer to CAD$20.



Conclusion

The fund generated a respectable return of just over 14% gross in 2019. Outperformance in a number of our core holdings in the latter half of the year helped to lift return figures, although we expect to give back some of these gains in the coming months as some names seem overbought on a short-term basis. However, we still think companies in our Canadian oil and gas and basic materials buckets can rally more than 100% from current levels over the next twelve months and so we will continue to own these companies, barring new, negative information.

In terms of near-term focus, we are spending more time on the shipping market. Events in the past few months, including the US sanctions on COSCO, missile strikes on Saudi Arabia's refineries and IMO 2020 coming into force have invigorated the shipping space – headline charter rates for tankers spiked 10x from $30k/day to $300k/day. We have been positioned in the dry bulk space so have missed the rally in tanker names. However, we think there is still room to run – charter rates have stayed high, ship NAVs are moving higher, yet investors are still leery of the sector. Names we are watching closely include Euronav (NYSE: EURN), International Seaways (NYSE: INSW) and Ardmore (NYSE: ASC); it is quite possible that they see 30-50% rallies in the next 6 to 12 months.

We hope this investor letter has been informative. Thank you for your support and best wishes to you and your loved ones for 2020!

Sincerely,

Yongchuan Pan
7 January 2020