Bodhi Tree Tactical Allocation Fund, LP
November 2019

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Dear Bodhi Tree Investor,

After several months of reflection, and extreme turbulence in our portfolio which has led to a near 4% decline in the month of October, effective October 31st, I decided to intercede in a meaningful way to change the philosophical framework underpinning our investment modeling. This thought has been several months in the making during a period of intense reflection and I want to explain why and what this means.

Our models have historically rotated from equity to bonds and utilized asset class diversification to reduce risk in a strategy that utilizes concepts of “risk parity.” Even though we profited, 2018 was the first year in 100 years where such a strategy lacked efficacy because both bonds, equities, and 90% of other assets simply traded with a correlation of one.

In 2019 we have seen nearly the exact same phenomena, except in the opposite direction. After much reflection, I have to come several solid conclusions which you may have come to as well.

1) All asset class movements are now being governed by Central Banks rather than macro-fundamentals. It is clear that the stated objective of Central Banks is to avoid catastrophe by manipulating risky assets.
    a. This doesn’t mean catastrophe can’t come, but it means the framework to analyze how and when it can transpire must change.
2) Hundreds of billions – if not trillions - of dollars are being managed in algorithmic “trend-following” or “risk-parity” style strategies that are similar to Bodhi Tree. However, in many of these cases, the strategies utilize leverage and work brilliantly during uptrends and have the potential to collapse during deleveraging.
    a. Any strategy that attempts to be different will be torn apart by the sheer force of fund flows from the likes of a handful of giants like Bridgewater, AQR, etc.
    b. This phenomenon is highly exploitable.
3) **Given the above, the original major models driving our macro-fundamental strategy won’t work in the way they are intended. They won’t profit in an environment where Central Banks have turned upside down the meaning of risk and risk free. I cannot stand idly by and see our capital diminish.**

The Good News

Now the good news is that because I spent 5+ years building a sophisticated quant model. I know its strengths and weaknesses, I know the strengths and weaknesses of others, and I know exactly how ours and the other models work. I believe that I am ahead of others in understanding this new world paradigm, which therefore gives me a major edge.

So, the bet I’d like you to back me on is one that is still model-driven but takes this sum total experience and allows me to recast our Fund to pursue a very simple strategy.

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- In favorable environments for risk-parity, we will trade alongside the major quant funds in a generic "60/40" or similar portfolio.
- In potentially unfavorable environments for risk-parity, we will trade AGAINST the major quant funds in a generic "-60/40" portfolio or some similar mix.
- The Fund will not use leverage in employing this strategy. I have decided that the above rules of engagement are simple and effective.

This simple strategy would have worked brilliantly since the inception of the Fund, but more importantly, increasingly so in the past 2 years as algorithms have come to dominate market trading.

Please note in making any objective decisions, that we are implementing this strategy at an ALL-TIME-HIGH for the 60/40 portfolio in an era of record low bond yields.

The reason I believe a potential generational unwind is imminent is that I am beginning to see cracks in the foundations in the portfolios of other algorithmic funds. These cracks could soon cascade into a very sharp deleveraging not dissimilar to Q4-2018 but likely much faster and more violent given how strong trends have been.

Again, the way our strategy was originally devised and given the new environment we are in where bonds are not an effective hedge, it is clear that the original models would give you downside with very little upside.

The catalyst is that Central Banks have, for now, finally said that monetary policy is on hold. Translated, this means they are not going to support asset prices until they fall far enough to where it causes systemic fear.

If indeed we do live in an era where the 60/40 portfolio will not protect you from a bond or equity crash, then our inverse portfolio construction becomes a perfect hedge to your "balanced" portfolio. I hope it seems logical that if 90% of your assets are in the exact same trade, then 10% or so should be in something that can be a true alternative.

In return for your TRUST in pursuing this strategy, I have decided to reduce management fees to 0% for calendar year 2020.

Finally, in fairness, since I marketed a concept of Tactical Risk Parity and not a model to trade both tactical and anti-risk-Parity, I will waive all redemption fees for anybody who would like to make a November 30th month-end redemption for any reason.

Your redemption request will be accepted anytime before Nov 15th for November 30th, but I would ask that you please immediately let me know your intention so that I can properly plan for 2020.

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Please think of me as a CEO who has identified a problem before it really exploded and is now pivoting with a solution; as the largest investor in the Fund, if I see something glaringly wrong in the markets or our process, I would like us to potentially profit from it in a way that could make us all quite happy.

However, I have been in the investment business for 20+ years and I am very aware of anchoring bias, investor behavior, and frustration so whatever decision you make is completely understandable. We are all human.

Time will be the judge, but again, I won't mince words; I believe a major phase shift is within weeks, and I'd like to not be judged by the past few months of holding on to a model which was built for a different paradigm, but whether I am right over the next few months and thereafter.

If I am not correct, I don't deserve to be the fiduciary of your capital and your investment will be returned without your even asking.

Housekeeping

The final change we will be making is a change of Administrator. Our current Admin, Horseshoe Global Services, was recently purchased by a large private equity owned firm. Horseshoe is an extremely inefficient Admin and they have decided to raise the price of their services by $1,000 per month, to $2,500 per month.

We will be switching our business to Sudrania Fund Services on January 1st, where our monthly cost will now be **$500 per month**. Of course, it needs to be noted that while Sudrania and Bodhi are separate firms, we do have a passive investment with them. But it simply doesn't make sense to use expensive, inefficient providers, when we have one that we know and trust.

I am always available for questions.

Sincerely, Shalin