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Bodhi Tree Tactical Allocation Fund (BTTA) Q1-2021 Letter

Dear Bodhi Tree Partner,

In this letter, we will discuss the following points:

I. Review Q1-2021 and YTD Performance
II. 2021 Performance Attribution
III. Portfolio Analysis
IV. Current Macro Thoughts
V. Concluding Remarks

Our letters will be shorter going forward. In this day and age, we realize that many people have limited time to read, and information is desired more "real-time" rather than 30 days after the quarter-end. To that end, as many of you know, Bodhi Tree has launched a Telegram Channel where you will find posts regarding portfolio positioning, macro views, and the occasional geo-political news-bite all in real-time.

We are grateful for the positive feedback we have received regarding the information and transparency provided. As of this writing, the channel has 42 subscribers which is quite remarkable given that about 1/3 of our Partners haven't yet subscribed (hint: subscribe).

You can subscribe by first downloading and signing into the Telegram channel on your mobile phone. Then proceed to click on the following link to join our group: https://t.me/joinchat/y3xGFcxJYyc1OTNh. You can also download the application on a Desktop computer, though we suggest for those less technologically inclined, the phone is an easier way to begin.

I. BTTA Performance Review

For the first quarter of 2021, the Bodhi Tree Tactical Allocation Fund gained **+1.99%** net of class B fees and expenses. This compares to an S&P 500 total return gain of +6.17% and an HFRX Equity Hedge index gain of +2.65%.

Since inception, over five quarters, the BTTA Fund gained **+36.20%** with benchmark comparison shown below.

Figure: Benchmark Comparison and BTTA YTD Performance

Benchmark	Mar-21	CY-2021	Inception to Date	Annualized Return	Annualized Volatility	Beta (S&P500)	Annualized Alpha	Max Drawdown	Sharpe Ratio
BTTA Fund	**0.36%**	**1.99%**	**36.20%**	**28.04%**	**12.97%**	**0.22**	**21.78%**	**(5.47%)**	**2.16**
HFRX Equity Hedge	0.87%	2.65%	7.37%	5.85%	12.46%	0.48	3.03%	(13.33%)	0.47
S&P 500 Total Return	4.38%	6.17%	25.71%	20.09%	23.29%	N/A	N/A	(19.60%)	0.86

Year	Returns	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2021	**BTTA Fund**	**7.51%**	**(5.47%)**	**0.36%**										**1.99%**
	HFRX Equity	(1.04%)	2.84%	0.87%										2.65%
	S&P 500 TR	(1.01%)	2.76%	4.38%										6.17%
2020	**BTTA Fund**	**1.41%**	**1.07%**	**0.67%**	**9.20%**	**3.48%**	**(0.30%)**	**7.35%**	**0.90%**	**0.68%**	**(0.46%)**	**4.65%**	**1.12%**	**33.54%**
	HFRX Equity	(0.33%)	(3.83%)	(9.58%)	4.49%	1.22%	2.21%	0.82%	2.71%	0.02%	(0.54%)	4.59%	3.60%	4.60%
	S&P 500 TR	(0.04%)	(8.23%)	(12.35%)	12.82%	4.76%	1.99%	5.64%	7.19%	(3.80%)	(2.66%)	10.95%	3.84%	18.40%

The quarter was quite challenging for us. Many of our holdings appear to have been caught in a severe technical deleveraging, which at the time was not fully understood, but is now clear in its underpinnings. We had a number of portfolio constituents that declined 25% from their all-time highs with little to no change in prospects. At the same time, the relentless vertical rise in market indices made hedging difficult. We feel fortunate to have come out of the quarter with a respectable return as well as some takeaways with respect to model refinement.

In the post-mortem, it appears that many growth-oriented funds and ETFs became forced sellers of names in a simultaneous deleveraging. That led to a cascade of quant fund selling across stocks with similar characteristics, including some of our positions. While Bodhi Tree can at times be postured like a growth fund, we are adamant that our holdings are different because of intermediate term visibility on profits generation. It is probable that February/March represented a case of the "baby being thrown with the bathwater," and going forward there will be better discernment not only within technology, but all sectors.

When evaluating the range of results for the quarter, particularly among managers who fared very well last year riding the Tech/SaaS wave, we are quite proud of how our long book ultimately fared. Overall, when evaluating the entirety of our track record over five straight quarters of positive returns, we are extremely pleased at both the dynamism and the downside-protected features of our portfolio.

In fact, Bodhi Tree was recently mentioned as a top-10 hedge fund for its category. This is a huge honor considering we just launched Version 1.0 of our quantitative model in January 2020. Now add the level of "intelligence" we have amassed during the current historic period and we are quite confident that we have an exponentially superior investment process today versus fifteen months ago.

Figure: Bodhi Tree ranked #6 among all funds over the past year ending February 2021

Top 10 macro funds | past 12 months and past month

	Fund	Firm	Past 12 months %	Feb %*
1	Crescat Global Macro Fund LP	Crescat Capital LLC	88.2	-0.7
2	MLM Macro - Peak Partners, L.P.	Mount Lucas Management LP	76.8	10.2
3	Bovell Global Macro Fund SP USD	Bovell Global Macro	73.0	6.8
4	Gemsstock Fund	Gemsstock Ltd	56.1	9.2
5	Caxton Global Investments, Ltd.	Caxton Associates	41.4	3.9
6	Bodhi Tree Tactical Allocation Fund, LP	Bodhi Tree Asset Management, LLC	32.4	-5.5
7	EDL Global Opportunities Fund Ltd	EDL Capital	31.8	4.4
8	Friedberg Global Macro Hedge Fund Ltd	Niagara Capital Partners Ltd.	31.1	7.9
9	HonTe LH Macro Onshore Fund, LP	HonTe Advisors	28.1	-11.1
10	Sandpiper Global Macro Program	Sandpiper Asset Management	26.5	20.4

II. Q1-2021 Performance Attribution and Analysis

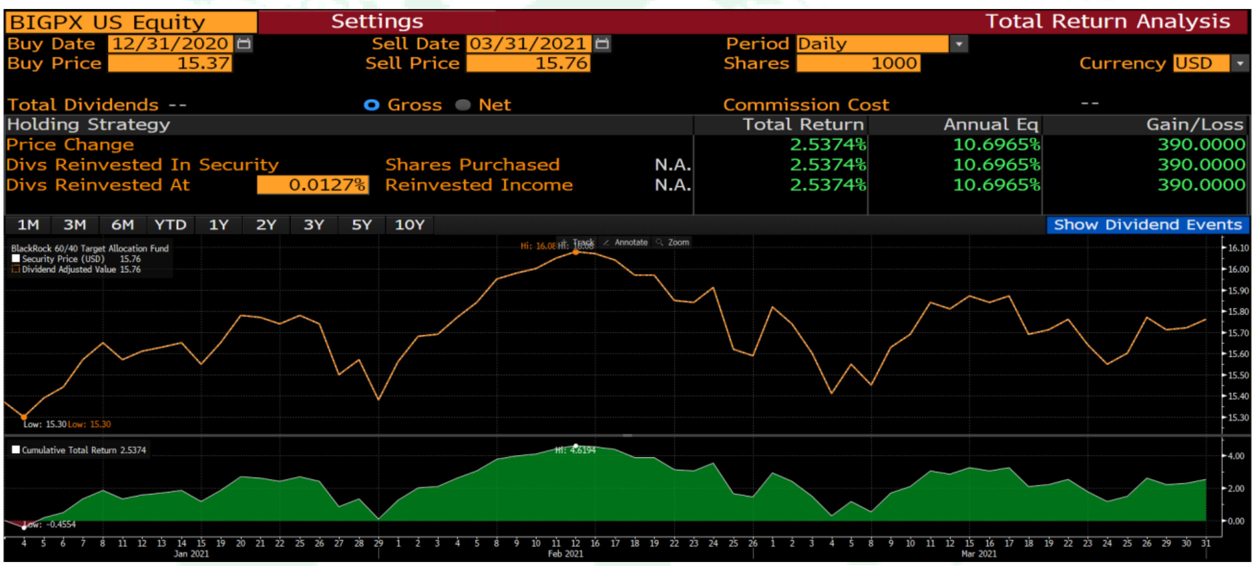
On a gross basis, the Fund's longs slightly underperformed the S&P500. Macro hedges were unusually painful for the quarter owing mostly to sharp reversals in trends and hedge fund deleveraging during February. While our models were correct in assessing pockets of extreme risk, our hedging strategy missed the mark in February due to the relentless rise in indices. Both January and February saw unusual deviations from overall index performance in our long book (which basically cancelled each other out).

The best way for us to determine the efficacy of our hedging is by using a base case net exposure to the equity market (we consider this to be 60%) paired with a generic S&P 500 short of 40%. Were we to have used a straight 40% S&P 500 short over the first quarter as our "hedge," our hedging loss would have been 2.48% versus the actual loss of 2.55% (the 2.48% figure is calculated by multiplying the Q1 S&P return of +6.18% by 40%).

An arguably more complete method is to compare the BTTA Fund to a generic 60% equity/40% bond portfolio – the most common portfolio construction from Advisers and the benchmark asset allocation for sophisticated family offices and endowments (like the type I used to manage). Now to be fair, BTTA Fund with a 0.22x beta and a maximum drawdown of under 6% since inception, is FAR superior to a 60/40 high beta portfolio, but we think it is probably the fairest benchmark given our long-term return targets.

Our guess in looking at most balanced portfolios is that they will have returned 2.54% for the first quarter +/- basis points. It is through the above methodology that we believe one should evaluate our results over the intermediate (1 year) and long-term (4 years).

Figure: Q1-2021 return for the Blackrock 60/40 Fund



The source of the BTTA returns since inception gross of fees can be found in the below table:

Figure: Performance breakdown of Bodhi Tree Long Book and Macro Hedge Book vs S&P 500

Month	Micro Long Book	Macro Hedge Book	S&P 500 TR
Jan-21	7.29%	2.12%	(1.01%)
Feb-21	(2.69%)	(4.07%)	2.76%
Mar-21	1.05%	(0.52%)	4.38%
Apr-21			
May-21			
Jun-21			
Jul-21			
Aug-21			
Sep-21			
Oct-21			
Nov-21			
Dec-21			
YTD-2021	5.50%	(2.55%)	6.18%
2020	**33.82%**	**8.76%**	**18.40%**
Inception	**41.18%**	**5.99%**	**25.71%**

Figure: Q1-2021 BTTA Sector/Silo Attribution

Sector dispersion was constrained during the quarter. While the Fund's technology positions performed well, losses in our healthcare positions nearly offset this. In the meantime, a poorly timed decision to short the energy sector cost the Fund over 150bp (for what was a relatively small 7.5% short position). Of course, given the 30% gain in the Energy ETF (XLE) over the quarter, any short was at risk. The reason for this short was a complete misinterpretation of the macro environment having similarities to prior instances from 2009-2020. We quickly realized that this is not the case and pivoted appropriately.

Figure: YTD performance attribution

Sector	YTD (%)
Equity Index	0.16%
Real Estate	1.20%
Energy	-1.56%
Financial Services	-0.88%
Technology	3.08%
Basic Materials	-0.39%
Fixed Income	0.60%
Industrials	0.53%
Commodity	-0.60%
Healthcare	-2.47%
Volatility	-0.23%
Blockchain	-0.19%
Consumer Defensive	1.84%
Consumer Cyclical	2.33%
Credit	-0.09%
Utilities	0.07%
Communication Services	-0.87%

P&L by position breakdown (Quarterly):

Portfolio Top 5 Gainers

POSITION	GAIN/LOSS
CROCS INC	1.30%
NATIONAL BEVERAGE CORP	1.27%
EBAY INC	1.01%
EXP WORLD HOLDINGS INC	0.93%
U.S. TREASURY SHORT	0.60%

Portfolio Top 5 Losers

POSITION	GAIN/LOSS
FULGENT GENETICS INC	-1.38%
QUIDEL CORP	-1.21%
ENERGY SELECT SECTOR SPDR	-0.98%
FINANCIAL SELECT SECTOR SPDR	-0.88%
JOYY INC	-0.87%

III. Portfolio Analysis

Current portfolio construction embraces Value stock investing while we are avoiding the uber high-quality names that powered the portfolio in 2020. These changes began in February and accelerated throughout March and April.

The vast difference between our portfolio last year and this year is clearly evident in the below table where for the first time since inception our portfolio is:

1) Cheaper than the equal weight market (it was always cheaper than the tech heavy weighted index).
2) Have in aggregate companies with higher debt/equity (leverage) ratios than the market at large.
3) Currently at a $12 billion average market cap versus ~$50 billion last year.
4) Is significantly more volatile than the overall market.

Figure: BTTA Portfolio vs. Comp Set (4/23/2021)

Metric	BTTA Long Portfolio vs Comp Set (~Russell 1000 ex-Financials)	BTTA Long Portfolio vs Comp Set (1 year ago)
Profitability	Lower	Higher
Management Effectiveness	Higher	Significantly Higher
Valuation	Lower	Higher
Leverage	Higher	Lower
Business Momentum	Higher	Higher
Technical Momentum	Higher	Neutral
1 year Volatility	Significantly Higher	Significantly Lower
Average Market Capitalization	Smaller	Significantly Higher

We expect Bodhi Tree's monthly performance to be more volatile going forward as a result of the current portfolio construction.

While higher volatility lends itself the chance to make significantly higher profits, it can also mean sharp drawdowns. Often, investors conflate volatility with "risk" and the two are not necessarily synonymous. Bodhi Tree always focuses its algorithms on balancing multiple factors to maximize downside protection. *In the current case, our models discern that owning statistically higher volatility companies is actually safer than being in lower volatility names, the latter whose valuations are at historical highs.* As we show in our macro review, ironically it is "safety" and "quality" that has done poorly in 2021 and could be the greatest risk going forward.

One possible conclusion of our model output is that the market is implying valuations for Growth and Quality companies have peaked. Such companies must either grow very quickly into their valuations or see even lower interest rates to benefit from multiple expansion. In our Telegram thread, one can refer to a discussion regarding Coca Cola, a company that has seen no growth in over a decade but has benefited from an ability to financially engineer shareholder return. If neither growth nor lower rates transpire, these companies are at high risk, either due to higher interest rates or a disruption of the company's business prospects.

Figure: Coca Cola (KO) has generated a 100% return (incl dividends) to investors with no EPS growth in over a decade

I hope that by outlining potential outcomes of our current portfolio construction *a priori*, we are all now collectively mentally prepared for the flavor of fund results that could transpire over the coming months.

IV. Current Macro Thoughts

Bodhi Tree Macro Cycle Monitor Review…

This is certainly one of the most interesting macro environments of the past fifty years. Negative real rates combined with record amounts of fiscal stimulus, supply chain shocks, along with foreclosure/eviction moratoriums have created the most distorted environment in history. The multiple phases and speeds of Covid waves, Covid responses and vaccine rollouts around the world have created a much more complex pattern of global recovery than usual in this cycle. When we combine this with disparate global fiscal and monetary policy, and diverse levels of pent-up demand, it is no wonder that investors and commentators are becoming confounded.

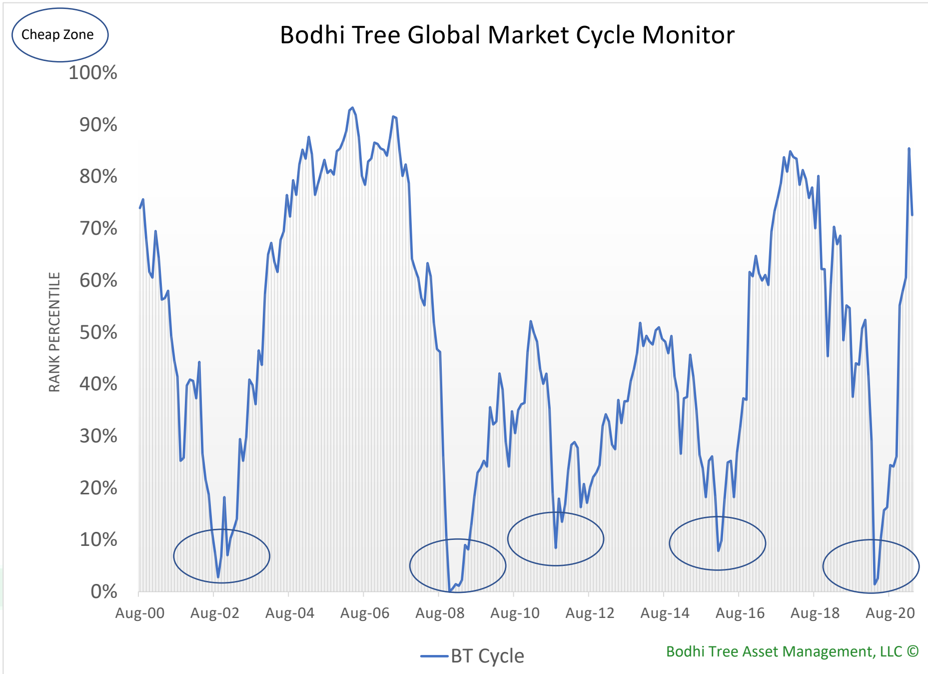
There are two pillars to our style of macro trading (essentially that which comprises our “short book”). The first is a 30,000-foot view derived from the **Bodhi Tree Global Market Cycle Monitor**. That is the view we generally discuss since it is the most palatable for investors. I find it hard to believe that anybody can be structurally bullish on financial assets going forward (real assets may be a different story). High debt levels, overvalued investments, zero-bound interest rates, and political risk are acute in the United States and even more so globally.

The Monitor acts as an anchor for all our views in so much that it helps us avoid “fatal” mistakes that plague many investors – professional and otherwise alike. For the uninitiated, the Monitor combines three key mean-reverting metrics:

- A ratio of Cyclical companies vs. Non-Cyclicals
- A ratio of Industrial metals vs. Precious Metals
- A ratio of High Yield credit to High Grade credit

The premise is that an investor, ideally, should take maximum risk during a period of low *relative* valuations, poor economic activity, and a low appetite for risky credit. The quintessential examples are 2002, 2009, and even 2020. Likewise, an investor should be cautious during a period of high *relative* valuations, strong economic activity, and high appetite for risky credit. Well-known examples include 2000, 2007 and 2018 and the **Present**.

Figure: The Bodhi Tree Global Market Cycle Monitor (Low = Cheap; High = Expensive)



The implications of a peak in risk-appetite are meaningful, but do not imply an immediate end to the bull market. In fact, some of the most spectacular gains can come during narrower markets because there are fewer ideas to invest in and hence a small number of companies can experience jaw-dropping gains. At the risk of sounding like a hedge fund salesman, once index momentum slows down, it should become a fantastic environment for being both Long single names and Short indices.

If we look at factor performance in 2021, safety and quality have been heavily penalized. Judging by still high valuations in the technology space and a 10-year U.S. treasury that according to many Economists could surpass 2%, it is probable that the underperformance of the safety factors could persist through year-end if not longer.

Figure: Performance of the most popular factors in 2021 is uniform across geography

YTD Factor Returns (Q1 vs Q5)

Factor (High/Low)	USA	Japan	Europe	China	Canada	S. Korea	France	U.K.	Germany
Sales Yield	16.74	20.93	8.53	8.56	16.48	14.29	8.52	14.85	11.33
Sales/EV	14.72	14.38	4.28	8.8	12.2	12.81	7.57	13.78	9.17
Debt/MV	14.34	15.92	9.15	5.61	9.61	9	1.25	9.96	6.65
Book Yield	14.32	19.66	11.67	[illegible]	[illegible]	[illegible]	[illegible]	6.09	7.59
CF Yield	13.35	10.11	5.79	[illegible]	[illegible]	[illegible]	[illegible]	11.16	7.36
Corr. To 10 Yr	12.1	2.59	1.51	[illegible]	[illegible]	[illegible]	[illegible]	5.8	0.84
Beta	11.82	10.26	7.66	-5.38	10.48	1.52	-1.1	6.56	3.66
Net Debt/EV	11.2	2.89	7.06	0.97	8.92	-0.9	-1.12	-0.29	0.05

Value & Cyclicality Are Outperforming

Market Value	-10.08	-5.63	1.43	-0.35	-0.47	-4.99	2.94	-3.11	-3.13
Momentum	-10.4	-15.16	-7.59	-3.92	-12.11	-11.81	-5.24	-10.89	-0.34
High P/E NTM	-12.23	-13.99	-11.24	-12.99	-7.38	-13.9	-6.43	-11.44	-5.94
Mo. Reversion	-12.32	-9.44	-7.81	[illegible]	[illegible]	[illegible]	[illegible]	-9.81	0.35
High P/CF	-12.79	-13.39	-6.59	[illegible]	[illegible]	[illegible]	[illegible]	3.12	-4.85
High P/Book	-12.85	-17.34	-10.94	[illegible]	[illegible]	[illegible]	[illegible]	-6.03	-7
Alpha	-14.8	-12.08	-7.59	-3.24	-11.47	-8.63	1.38	-7.04	2.19
High P/Sales	-14.85	-17.99	-9.12	-8.42	-12.67	-12.76	-8.02	-11.64	-10.44

Growth & Defense Are Underperforming

To that end, we have seen a marked shift in the Bodhi Tree portfolio. Numerous factor inputs have swung toward investments in companies leveraged to a resurgence in global demand, areas where there may be supply chain constraints, and companies simply left for dead. That is what we mean when we say "Value."

The fundamental question now is whether the moves seen thus far in 2021 are a blip or harbinger of something bigger to come. It is during these moments of secular change where the great opportunities for differentiation present themselves. Could the reversal of the decade long theme of growth stocks outperforming value stocks be one of them? If so, the majority of the investment community would be flat-footed.

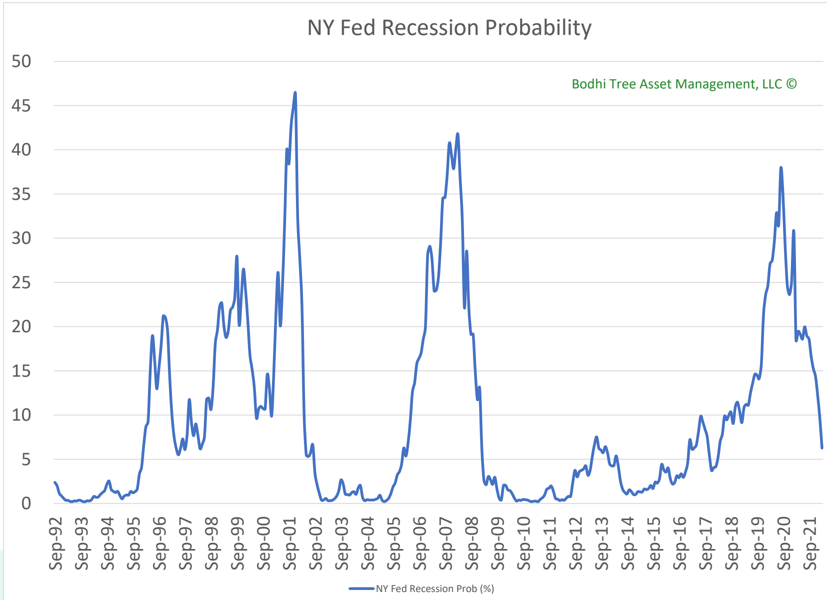
Finally, if one is fearful of being "late to the party" on value investing, the below chart may put the *potential* opportunity in context.

Figure: Growth is the most overbought to Value in modern history

There is little chance of a recession, especially when considering the Politicians' largesse…

Further bolstering the argument for the value trade is the current economic environment, which is clearly still one of recovery/reflation and possible inflation. Historically, the reflation period has ended when recession probability hits 0% (because from there, by definition, the next major economic event would be a recession). Past historical instances of growth/quality stock dominance have transpired during periods where growth prospects were increasingly shaky (blue line trending up), such as 1995-1999 and 2014-2020. That is not the case right now and may not be until the prospect of recession falls to 0% and begins to rise again.

Figure: Recession probabilities continue to decline



Inflation is at cycle highs, and with continued recovery it is unlikely they are transitory…

Chairman Powell has called current inflation trends “transitory.” Increasingly, it looks like that is not the case and markets are beginning to snuff this out. Currently, inflation expectations are at levels not seen since 2018; however, that was a period of cresting U.S. and Globally synchronized economic growth, and not the beginning of an economic cycle as we appear to be in the present.

If inflation is already high and trending up this early in the cycle, what does it look like in the future with continued growth and/or stimulus?

Figure: 5 year forward inflation expectations are at the 2018 peak

Our overall macro takeaways are the following:

- The global economy is recovering at varying speeds due to unprecedented stimulus by some countries and raging Covid in others.

- There is no such thing as a free lunch. In the U.S., with record asset valuations, something has to give; it will most likely be interest rates.
- Given that valuations of the best performing growth stocks have been leveraged to lower interest rates, which are now at the zero-bound, growth stocks appear to be the most susceptible to long-term underperformance.
- Overly indebted economies are structurally deflationary, but that doesn't mean bouts of inflation cannot arise especially when considering the supply-chain disruptions related to Covid and Global Governments' non-reluctance in using the printing press.
- Overall, we face a potential period where hard assets outperform financial assets not to dissimilar to the period from 2000-2007, but with a far more damaged world fraught with risks.

V. Concluding Remarks

It has been an unbelievable five quarters. Any number of crosscurrents could have left a permanent scar on our young Fund. And while we have not been as perfect as we wanted, we can absolutely assure you that we have become even better at modeling the *rhythm of the market*. We sincerely believe that we enter Q2-2021 as the best possible version of ourselves and we are brimming with confidence given the level of market intelligence we have codified.

Bodhi Tree continues to be open for subscriptions in its Class B Founders' share class where Partners pay a 0.75% management fee and a 20% incentive fee with a 5% hurdle. As promised, we have grandfathered for the life of your investment capacity up to $1mm at the Class B fee rate.

As always, we thank you for your support.

Sincerely,

Shalin Madan