INTERIM DECENNIAL LETTER

Dear Universa Investors,

As you know, it has been my habit to write a formal investor letter to you once every decade. Since it feels like we have experienced a decade's worth of panic and volatility in the month of March (with the S&P 500 down 26.2% at its lowest, and down 12.35% at the month's close), I decided to write you this "interim" letter—an addendum to my last Decennial Letter from about two years ago. It is a good time to reflect again on how we have performed for you as a risk mitigation strategy, if for no other reason than to give you some reassurance and even solace following one of the scariest months for markets on record. This historical perspective serves as a reminder that, going forward, there is every good reason to expect that protecting against large drawdowns with Universa should remain the superior risk mitigation strategy, saving you the needless costs and risks associated with most financial engineering and Modern Finance solutions, while providing superior "crash-bang-for-the-buck" should the crash continue.

And as a bonus, at the end I'll even share with you exactly what my trusty crystal ball is saying right now.

The straightforward performance to report on your specific account for the standalone Universa tail hedge (the BSPP) is as follows: **Based on your required invested capital at the start of the year, in March 2020 you experienced a +3,612% net return on capital; year-to-date you have experienced a +4,144% net return on**

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capital; and life-to-date on your investment, based on your total invested capital to-date, you have experienced a +239% net return on capital.

These returns likely surpass any other investment that you can think of over the period you have been invested with us. Kudos to you for such a sound "*tactical"* allocation to Universa.

Moreover, the standalone Universa tail hedge strategy's life-to-date mean annual net return on invested capital (expressed as returns on a standardized capital investment since inception in March 2008, and using yours from your start date) has been +76% per year. (During this period, as a reminder, the SPX has gained 151%. Are we really such an "über-bearish" strategy?)

As you know from our constant stress-testing of your position, your exposure is structurally extremely nonlinear and convex to drops in equities—this is what makes us a "tail-hedge." Notwithstanding that, we were able to monetize the bulk of the spikes in P&L that we experienced in March, as is our systematic process, while keeping your downside protection in place throughout, should the market continue lower—one of our tricks of the trade.

But, of course, Universa's strategy (the BSPP) is a risk mitigation strategy, and this makes it so much more significant and potentially impactful than some tactical punt on last month's crash or the next one to come. And it is more than just a random source of uncorrelated return (or "alpha") in your portfolio. Rather, it is the strategy's risk mitigation "portfolio effect" that really moves the needle, in a way that diversification (or "diworsification") never can. As you know, I am a strong believer that, if a risk mitigation strategy merely slashes a portfolio's risk at a cost of growth of capital in that portfolio—even if it raises the "mean/variance" of that portfolio—then it was simply ineffective and probably not worth doing. Afterall, what was the point? (Of course, this belief is surprisingly controversial and very much flies in the face of the central tenets of Modern Portfolio Theory.) A pensioner cannot eat "mean/variance." The goal of risk mitigation must be to achieve the portfolio effect of raising the compound annual growth rate (CAGR), and thus the wealth in the end user's entire portfolio, by mitigating risk in that portfolio. This has always been our focus.

As in my last Decennial Letter to you, we will show this portfolio effect by updating the performance of the hypothetical Universa "risk mitigated portfolio," which pairs our actual net performance (monthly administrator-provided net returns, using yours from your start date, expressed as returns on a standardized capital investment) with an SPX position (a realistic proxy for the systematic risk being mitigated). The weightings between the two are 3.33% and 96.67%, respectively, as per the weightings we have always recommended for a fully "tail-hedged" Universa risk mitigated portfolio.

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There is actually no other sound way to observe this portfolio effect, due to the nonlinear dynamics between our strategy, systematic exposures, and the compounding of the two within your portfolio. Covariances won't show it, nor will Sharpe ratios, nor any other metric—just portfolio CAGRs. (You may recall this as the Kelly criterion.)

Below is an updated summary (shown in what I have previously called the "risk mitigation scorecard") of that portfolio's net performance. We also compare those results with net performances of similarly-constructed hypothetical "risk-mitigated portfolios" of seven other standard-bearers in risk mitigation (using different weightings to create a more apples-to-apples comparison by risk between these strategies, as described in my last Decennial Letter), as well as with no risk mitigation at all.

The Risk Mitigation Scorecard

		CAGR			
Strategy	**March 2020**	**Since 2019**	**Since 2015**	**LTD** (Since Mar 2008)	**2008** (Mar-Dec)
Universa Tail Hedge (3.33%) + SPX (96.67%)	**0.4%**	**16.2%**	**8.3%**	**11.5%**	**9.9%**
CBOE Eurekahedge Tail Risk (3.33%) + SPX (96.67%)	-11.4%	5.2%	6.3%	7.7%	-29.4%
iShares 20Y+ Treasury (25%) + SPX (75%)	-6.8%	12.2%	7.3%	8.9%	-15.1%
iShares 3-7Y Treasury (25%) + SPX (75%)	-8.3%	6.9%	6.1%	7.2%	-21.1%
CBOE Eurekahedge Long Volatility (25%) + SPX (75%)	-2.3%	10.7%	6.1%	8.2%	-13.8%
Gold (25%) + SPX (75%)	-9.1%	8.4%	6.5%	7.4%	-25.4%
Hedge Fund Index (25%) + SPX (75%)	-10.3%	4.4%	5.6%	6.7%	-27.5%
CTA Index (25%) + SPX (75%)	-8.7%	5.6%	5.3%	6.6%	-21.5%
SPX (100%)	-12.4%	4.5%	6.6%	7.9%	-30.7%

A 3.33% portfolio allocation of capital to Universa's tail hedge added 12.7% to the return of an SPX portfolio in March 2020, added 11.6% to the CAGR of an SPX portfolio since 2019, added 1.7% to the CAGR since 2015, and added 3.6% to the CAGR life-to-date (since its inception in March 2008). The Universa risk mitigated portfolio has thus outperformed the SPX across *all* of these timeframes, accompanied by—or, more accurately, *because of*—far less risk (as evidenced by the March 2020 and the 2008 columns).

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To put this in perspective, that value-added to the SPX portfolio CAGR life-to-date from a 3.33% allocation to the Universa tail hedge is mathematically equivalent to a 3.33% allocation to an annuity over that same period yielding 102% per year. Let that one simmer for a minute. We are not just another little incremental source of alpha within your portfolio; nor are we just some exotic alternative to a fixed income allocation.

Meanwhile, the other alternative risk mitigated portfolios all underperformed compared to the Universa risk-mitigated portfolio across all of these timeframes—despite the incredible run by high-duration bonds thanks to that whole crazy central bank bond purchasing thing.

Moreover, almost all of the alternative portfolios *subtracted* value, or underperformed the SPX alone, since 2015 and since 2008. The exceptions were "Long Vol" (which edged the SPX since 2008, required a 25% allocation to impact portfolio risk, and thus underperformed since 2015) and of course high-duration bonds. (Most would surely agree that high-duration bonds today are ironically a rather risky risk mitigation strategy.)

Not surprisingly, the "Tail Risk" index came in looking pretty bad as well since 2015 and 2008. No weighting for that would have added value in a portfolio over the long run (as it's just not convex enough); the same goes for CTAs and hedge funds in general, as I've written about often. Thus, I have to agree with most people's negative opinion on tail hedging. At Universa, we differ from run-of-the-mill tail hedging strategies more than we are similar, and from what I've seen of them I expect that to continue.

Whatever ostensibly low value most of these other risk mitigation strategies may have provided during the bad times of 2008 and 2020, that was more than relinquished by their extreme underperformance during the good times. That's the catch to most risk mitigation strategies (and the plague of "diworsification"): they obviously only add value if the former outweighs the latter—and evidently it very rarely does. Remember, anyone can make money in a crash; it's what they do the rest of the time that matters. The totality of the payoff is what creates the portfolio effect.

And, to answer the persistent skeptics of our strategy out there, let me point out that we certainly didn't need the Q1 2020 market drop to add risk mitigation value. At the end of 2019, for instance, Universa's life-to-date risk mitigated portfolio CAGR exceeded the CAGRs of all of the other risk-mitigated portfolios (including, most notably, high-duration bonds), as well as of the SPX alone, by from 2.2% to 4.2%.

We have managed to consistently achieve our aim of raising our risk mitigated portfolio CAGRs by lowering risk, pandemic or no pandemic. And, as I have said many times before, it has worked so well simply because of **the mathematics of compounding: the big losses are essentially ALL that matter to your rate of compounding,**

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not the small losses—and not even the big or small gains. The big losses literally destroy your geometric returns and, equivalently, your wealth, through what I have called the "volatility tax." For risk mitigation to be effective, it therefore must focus primarily on mitigating those big, rare losses (the tails). More specifically, **risk mitigation must have a very high "bang-for-the buck" in a portfolio when the chips are down in a crash, relative to the portfolio cost of that "buck" the rest of the time—a very "convex" (tail) hedge.** None of these other competing strategies have shown that.

Please don't ever let a manager of an underperforming "diworsifying" strategy tell you that they lowered your portfolio's volatility, and so it's ok that they also lowered your returns. Please don't let consultants tell you that either. Mean/variance is the smoke-and-mirrors narrative of the investment industry.

Looking ahead, the world remains very much trapped in the mother of all global financial bubbles. This is obvious, a given. Markets were priced for "perfection," and now, following even more of the greatest monetary stimulus in human history (much of it in the span of just the last few weeks), they're still priced for "really good"—still very expensive. So this is far from over; the current pandemic is merely *threatening* to pop the bubble. (And, as we all can plainly see, the powers that be are likely running out of ways to keep the bubble inflated.) Make no mistake, it's the systemic vulnerabilities created by this unprecedented central-bank-fueled bubble, and the crazy, naïve risk-taking and leverage that accompanies it, that makes this pandemic so potentially destructive to the financial markets and the economy.

Is the bubble now popping? When I look deep into my magic crystal ball, it clearly says to me, **"There are no magic crystal balls!"** And, moreover, those who grandiosely tout their crystal balls need to be avoided in the interest of preservation of capital. Whose crystal ball saw this past quarter coming? Sure, the global pandemic risks were there for all to see (as our colleague Nassim Nicholas Taleb pointed out in his book *The Black Swan*, some 13 years ago), but no one can ever really see what's next, what lies around the corner. Despite our performance, that has included us. One's risk mitigation strategy must reflect that reality.

But if history and economic logic are any guide, if the pandemic doesn't pop this bubble then, of course, it will be something else that eventually accomplishes this. That's my Cassandra speech (again).

At the end of the day, think of Universa as your safe haven, your shelter from the unpredictable storm. But it's not like staying holed up safely indoors (quarantined, as it were) whenever dark clouds gather (and somehow, they always seem to gather). It's more like carrying an umbrella, allowing us to go about our business, rain or shine, no matter what financial storms loom.

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We intend to serve as a risk mitigation strategy that allows you, our clients, to deliberately and responsibly take on more systematic exposure and ride the market bubble. Most importantly, to do so without the need for a crystal ball.

As we gaze into the abyss of the coming months and years, we needn't care what gazes back. We can be ready to accept the markets' uncertain fate, no matter what that fate may be. *Amor Fati*. This is the point of risk mitigation.

Cordially,

Mark Spitznagel

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Calculation of Performance of Various Risk Mitigated Portfolios. For the period from March 2008 through March 2020, the portfolio returns were based on hypothetical risk-mitigated portfolios pairing the S&P 500 Total Return Index and each risk mitigation strategy with the indicated weightings (rebalanced every calendar year end). Resulting annual performance figures were then tracked. All returns are based on official closing prices as of the end of March 2020 except the CBOE Eurekahedge Long Volatility, Cboe Eurekahedge Tail Risk, Barclay CTA and HFRI Hedge Fund Indices for which preliminary estimates have been used.

The stand-alone Universa tail hedge (or "BSPP") component of the hypothetical returns on invested capital were calculated based on monthly administrator-provided actual return data (which is net of all fees and expenses) for a series of standard, representative investors through time, whose fund financial statements for each year through 2019 have also been audited, except for March 2020 for which preliminary estimates have been used. The returns include your specific performance from the date you started. Universa then expressed these returns as annual returns on a standardized 10% of "BSPP Notional Amount" (or 3.33% of "BSPP Protection Size") capital investment at the start of each year (to standardize across different historical preferences of capital funding among different accounts).

To account for the time needed to fully implement or wind down a BSPP portfolio, monthly administrator-provided return data has always included an incremental 3-month lag for investor-directed notional sizing increases (applying the average of any intra-month increase to the entire month), and any variations as appropriate, as well as for investor-directed notional reductions (applying the full reduction after 3 months on month-end, unless the notional reduction was full and Universa accelerated it as appropriate). Lastly, the BSPP returns from March 2008 through August 2008 were generated in a separately-managed account for which there are no administrator statements or audits. Therefore, the calculation conservatively assumes a 100% loss on invested capital over that entire time period.

Actual Performance Results for Individual BSPP Funds Differ. The actual BSPP performance results shown differ from the actual performance results for other BSPP clients during those periods. Clients may specify parameters for the BSPP strategy related to systematic risk-budgeting and profit-taking, which can also result in performance differences. Further, it can take several months for Universa to fully deploy the BSPP strategy for new BSPP funds (especially those with significant Notional Amounts or Protection Sizes), and thus the performance during the periods before full deployment of the strategy does not reflect a BSPP strategy's performance when fully invested. In addition, any client can at any time request one or more of an adjustment to a Notional Amount or Protection Size, purchase or sale of individual positions in a BSPP portfolio, liquidation of an entire portfolio, or withdrawal of excess margin, and some clients have restricted lists that limit the securities in which Universa can invest on their behalf. These decisions by individual clients lead to significant differences in performance among client accounts and thus it is difficult to select any BSPP fund during those periods that accurately reflects the performance of the BSPP strategy (without the effect of individual client decision-making). Universa believes, however, that the performance shown is a fair representation of an actual BSPP client's performance during the period shown. Monthly performance information of other client accounts is available on request from Universa.

CFTC-Required Disclosure re Hypothetical Performance. Universa only managed the BSPP component of the "Universa Tail Hedge + SPX" or "risk-mitigated portfolio" hypothetical returns shown. Therefore, the performance results of the combined portfolio are based on simulated or hypothetical performance results that have certain inherent limitations. Unlike the results in an actual performance record, these results do not represent actual trading. Also, because these trades have not actually been executed, these results may have under- or over-compensated for the impact, if any, of certain market factors, such as lack of liquidity. Simulated or hypothetical trading programs in general are also subject to the fact that they are designed with the benefit of hindsight. No representation is being made that any account or fund will or is likely to achieve profits or losses similar to those being shown.

Comparisons to Other Risk Mitigation Strategies and SPX. Universa compares the hypothetical returns of a portfolio combining the SPX with the BSPP to the hypothetical returns of the SPX paired with other risk mitigation strategies solely for illustrative purposes; the

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investments in the BSPP strategy are entirely different from the investments in those other strategies. In addition, Universa's BSPP clients are likely to compare the performance of a stand-alone investment in publicly-traded equities (for which the SPX is a proxy) with a paired investment in the SPX and the BSPP, so Universa includes the performance of the SPX as well in this presentation. The SPX is an unmanaged, capitalization-weighted index of the common stocks of 500 large U.S. companies designed to measure the performance of the broad U.S. economy. In contrast, the BSPP strategy invests in options, futures (including options thereon) and other instruments as well as short sales, and includes a component designed to profit during months in which the SPX experiences significant declines. The SPX's performance reflects the reinvestment of interest, dividends and other earnings.

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