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With Q2 2022, the Blue Tower Global Value strategy has enjoyed its best quarter of relative performance against global equity markets since inception. Our strategy composite returned 12.09% net of fees in the first quarter (12.41% gross) against a decline of -15.66% in the MSCI ACWI index[1]. Please review your individual account statement to see the returns on your account as it will differ from the composite return. The primary reason for the gain in our composite was due to the conversion of our Sberbank ADRs to local shares on the Moscow Exchange which we will discuss further below. In our last letter, we remarked that the decline we suffered that quarter had been largely artificial due to our Russian assets being marked to irrationally low prices in illiquid markets. A secondary reason for our strong quarter was that both of our portfolio holdings in Sweden, LeoVegas AB and Swedish Match AB were subject to acquisition offers by US companies. While 2022 is only halfway done, it has already been the biggest year yet for the percentage of our portfolio companies that have received acquisition offers.

The sanctions on Russian investments, which prevent us from buying or selling Russian stocks, caused a dramatic increase in the internal dispersion of returns for our composite's. Accounts that were opened after March 2022 will not own any Russian assets and will instead have a larger weight of all the remaining positions in the strategy. Additionally, we will not be able to adjust the weighting of Russian stocks to account for deposits/withdrawals of existing investors. As Russian assets have performed well in Q2, pre-sanction investors will notice that their account statement shows a better performance than the Global Value composite and post-sanction investors will notice the opposite.

The Blue Tower Global Value strategy is made up of replicated separate accounts that generally have the same portfolio weights. Most trades are made through large block trades that are then allocated to the subaccounts with investors included in that trade getting the same per share prices. As a result, internal return dispersion has historically been minimal. For the year 2021, the annual internal return dispersion was only 0.12%[2]. The table below comparing June 2021 and June 2022 monthly performance shows how much this has changed due to the present situation.

Blue Tower Global Value	June 2021	June 2022
Monthly Internal Return Dispersion	0.01%	3.08%
Best and Worst Gross Account Performance Difference	0.09%	11.59%

[1] ACWI is a trademark of MSCI, Inc. The MSCI ACWI Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. The index performance data include the reinvestment of dividends and is presented net of withholding taxes on dividends.
[2] asset-weighted standard deviation of annual gross returns of those portfolios that were included in the Composite for the entire year

Update on our Russian investments

As mentioned in previous letters, our two Russian investments are Sberbank of Russia and TCS Group (the holding company for Tinkoff Bank). These two companies are Russia-centered banks that are well on the way into diversifying into many other technology-driven lines of business. The sanctions on Russia and counter-sanctions on Western countries are still rapidly changing.

Our two investments were originally in the form of depository receipts in the US for Sberbank and UK for Tinkoff. In June, we were successful in converting our Sberbank ADRs to local shares after the Office of Foreign Asset Control granted the custodian of the ADR a special license for winding down the ADR program through conversions.

Russia has restricted foreign investors from selling their shares on the Moscow Exchange, so we are still unable to liquidate our investment in Sberbank. This is a temporary restriction without a set expiration date. As the ADR programs for Russian companies are being wound down, there was a risk that we would be unable to control the date on when the shares are liquidated in the future. By converting, we can hopefully avoid a forced sale and receive a fair price for our shares in the future. Furthermore, a new Russian law banning foreign depository receipts for Russian companies would potentially have complicated our future ability to receive dividends or voting rights. Restrictions from the Russian government banning transfer of dividends to investors from "unfriendly states" still currently prevent us from receiving dividends if they were to be paid out. Currently, the law calls for the dividends to be placed into special Ruble-denominated accounts in the name of the shareholder until the Russian government decides to release payment at some date in the future. Now that our Sberbank shares are tied to a stock market that has trading volume, our brokerage custodian prices them at the current Moscow market price of 133.3₽ (equivalent to $8.22 per ADR) as opposed to previous frozen ADR price of $0.52. This has led to a large increase in the net asset value of the Global Value strategy composite.

Sanctions from the US government prevent us from making new investments in Russian debt or equity, including on secondary markets.

We still have no changes in the status of our investment in TCS Group. As a Cyprus corporation, TCS is unaffected by the Russian law banning foreign depository receipts. However, the London Stock Exchange continues to prevent trading of the global depository receipts (GDR) on their exchange. The USD-equivalent price of TCS Group on the Moscow Exchange and the pricing of our depository receipt at Interactive Brokers can be seen in the table below.

	GDR price @ Interactive Brokers	DR Ratio	MOEX Price (Rubles)	GDR price in USD based on MOEX[3]
TCS Group	$3.19	1:1	2013₽	$31.02

Price as of July 8th, 2022

[3] Ruble/USD exchange rate based on IBKR market close rate of July 8th, 2022: 0.015408

MGM Resorts buys LeoVegas and Philip Morris buys Swedish Match

Swedish Match, a major portfolio holding of ours, was subject to an acquisition offer by Philip Morris this quarter for 106 SEK/share, approximately $16 billion USD at the time of the offer.

With some buyout offers, the market price tends to converge quickly with the offer price and if we believe that the deal is unlikely to have the offer price raised, we can quickly exit after the offer is made public. However, sometimes there is a considerable spread between the two prices. Taking into account our judgement of the probability of the deal completing successfully, price drop if the offer is withdrawn, and the possibility of the offer price being raised, we can come up with an internal rate of return (IRR) where we would be happy to continue owning the stock. This IRR can change depending on what's happening with the merger and other opportunities in the market. In the case of Express Scripts (a Blue Tower portfolio holding) being acquired by Cigna in 2018, our desire to hold ESRX stock until it was near the offer price turned out well for us as the offer/market price spread remained wide after the buyout offer announcement. The offer price was 20% above the share price at points before the close of the acquisition.

One advantage of our strategy which distinguishes us from merger arbitrage investors is that we believe in the fundamental value of our holdings as a long-term investment. If a deal falls through, a merger arbitrage investor is a forced seller of an equity that they had no interest in prior to the merger offer. For us, if the deal falls through, we are left holding stock in a company in which we were previously happy to be an investor.

We sold our Swedish Match shares in early July once the IRR of the offer approached 8%.

Shortly before the Swedish Match offer, LeoVegas received an acquisition offer from MGM Resorts to purchase the company for 61 SEK/share. In this case, the spread was very narrow from the beginning so we immediately sold out of our position. We believe that the offer price is a fair price for the business, and it is unlikely (though still possible) that there will be a rival offer at a higher price.

With the sale of these two stocks, we no longer have any investments in Sweden.

Difficult days ahead for EU members

The environment for the European economy remains bleak as the soaring cost of energy and other commodity inputs places a huge pressure on producers. The annual change in the Producer Price Index (PPI) for Germany reached a historic level of 33.6% in May 2022. Even excluding energy, producer prices climbed 16.5% year-over-year[4]. For the first time since shortly after the reunification of East and West Germany, Germany now registers a trade deficit as official statistics show a deficit of one billion Euros for May 2022[5].

Italy, the third largest economy in the EU, is also suffering from high commodity prices.

The obvious solution to dependence on foreign fossil fuels would be to shift electricity production towards nuclear as France as done with 66% of their electric needs coming from nuclear energy in 2020[6]. Despite the huge advances in safety enabled by modern reactor designs and passive cooling systems, the fears of nuclear energy have been stoked by the memory of the

[4] Federal statistic office, https://www.destatis.de/

[5] https://www.destatis.de/EN/Press/2022/07/PE22_279_51.html

[6] International Energy Agency, https://www.iea.org/countries/france

Chernobyl disaster. It remains unclear how this energy crisis will play out on the continent. A collapse in German and Italian industrial production caused by natural gas, coal, and petroleum shortages could have a domino effect on the entire European supply chain, pushing the continent into an economic depression.

After our sale of Swedish Match in early July, we now have less than 1% of our portfolio invested in EU countries.

US economy likely to remain relatively strong

In spite of the chaos in the rest of the world, the US economy will be relatively less affected. In the US, strong consumer balance sheets and built-up demand for new housing will likely act to cushion the macroeconomic impact of a global recession, higher interest rates, and higher energy costs. Since the start of the Covid pandemic, debt payments as a percentage of disposable personal income have been among the lowest recorded in federal reserve data[7].

We are living through a period of historic turmoil. We will best navigate this environment if we remember to remain observant, reevaluate our assumptions as new information is available, and remain humble about our ability to predict future events. We will continue to seek companies with underappreciated business quality or those trading at depressed valuations due to market dislocations.

Best regards,

Andrew Oskoui, CFA

Portfolio Manager

[7] https://fred.stlouisfed.org/series/TDSP