CRYSTAL WATERS PARTNERS

Market Outlook

July 2020

Navigating Market Exuberance

Low interest rates, Federal Reserve stimulus, and hopes of the economy reopening have led to stretched valuations across almost all sectors. Our focus remains on leveraging the current shift in primarily technology and biotech to the fund's advantage while protecting the fund's exposure to large corrections. We remain quite bullish for the second half of the year but expect the current positive run for the broader market to transition into greater volatility and possibly a larger correction.

Market Moves

During the current global pandemic, we continue to see the biggest investment opportunities in Healthcare, Biotech and Technology companies. As the world struggles to cope medically and quickly begins to adjust to a new normal where daily work, shopping, and entertainment happens at home, these activities require a new level of internet access, security and collaborative applications.   Despite many of the uncertainties in the economy right now, the general direction of the market is positive. However, our cash position remains strong as we anticipate lots of volatility in the second and third quarter and will continue to add positions where we see the most long-term value.

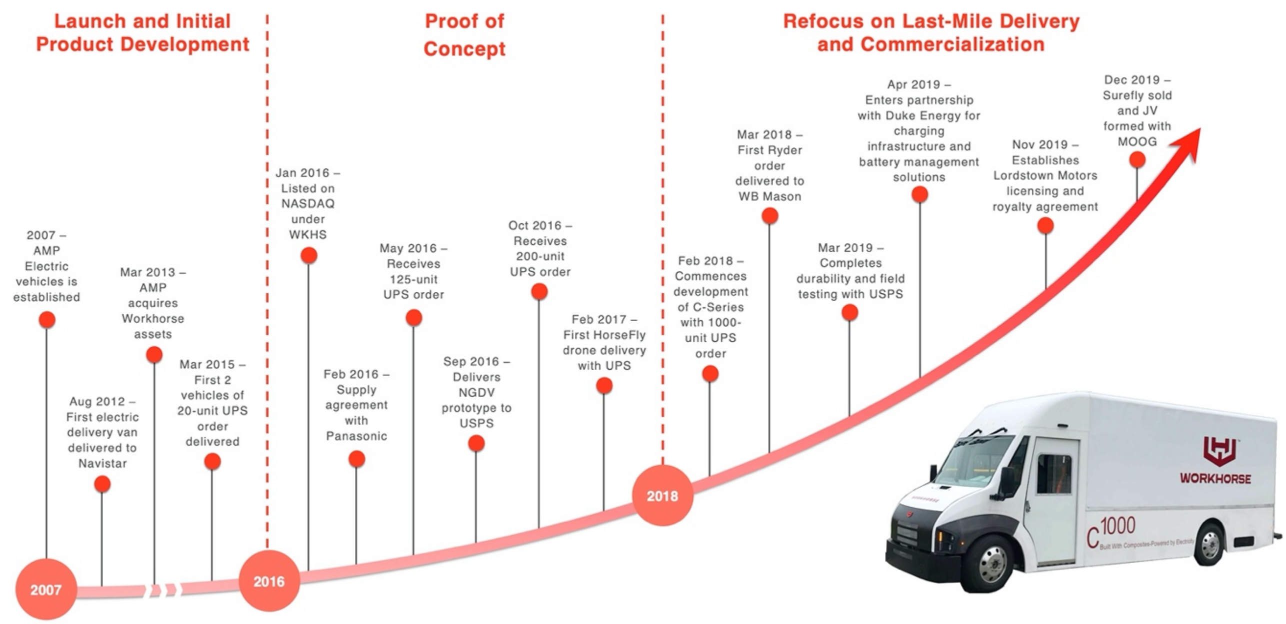
Fund exposure to China

Crystal Waters Partners continues to hold no long positions in Chinese companies. We find the market less transparent and the geopolitical climate far too risky for our limited partners money despite some good companies.

Notable Holdings and Developments

NASDAQ: WKHS

As e-commerce growth accelerates, commercial transportation and delivery is increasingly important. However, traditional vans and delivery vehicles pollute, are expensive to operate and cut into the margins of everyone in the supply chain. Electric vehicles are becoming the norm for lots of private transportation, but commercial transportation, and especially last-mile delivery remains an unaddressed market where electric vehicles (EV) can add tremendous value. Workhorse is the first mover and only U.S pure play OEM in medium duty electrification for last-mile delivery in the $18 Billon dollar cargo van market.

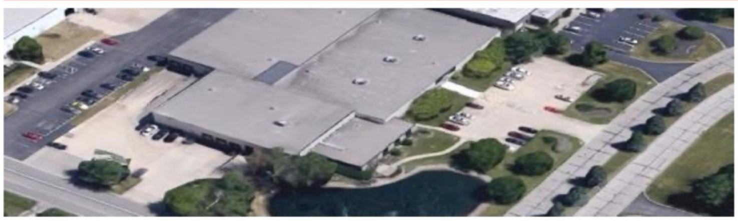


Workhorse offers vehicles for last-mile delivery, including electric cargo vans and medium and light-duty pickup trucks, integrated electric delivery drones, as well as cloud-based performance monitoring. The company's vans are all-electric with a 100-mile range that are more economical than traditional delivery vans. Their current delivery vans, E-100 and E-GEN, have more than 5 million miles on them and are used by some of the premier package delivery companies in the world. There are many players in the electric vehicle market, but Workhorse has a first-mover advantage which was solidified when the Series C received final safety approvals which give Workhorse roughly a 1-2-year head-start on other electric vehicle last-mile delivery competitors.

The quality of clients Workhorse has lined up is a major catalyst. Clients include USPS, UPS, DHL Worldwide Express, FedEx, Ryder Systems, and others. Workhorse has established partnerships with Duke Energy for charging infrastructure, ENERDEL for battery development, Ryder Systems for Service & Maintenance, MOOG aerospace for HorseFly drone development and manufacturing, and TPI Composites for lightweight manufacturing materials. UPS has collaborated with Workhorse on the design of their trucks and are likely to be a big customer. To date UPS has submitted 6 orders totaling 1,345 vehicles; so far 345 Gen 1 E-Series step vans have been deployed.

The United States Postal Service is evaluating Workhorse as one of two vendors for a $6.3 billion, 165,000 vehicle contract to transition its entire fleet of delivery vans from gas to zero-emission. Workhorse won the initial prototype contract and delivered six purpose-built test vehicles. The USPS has completed durability field-testing and issued a final RFP in December 2019. We feel Workhorse has the capital, know-how and ability to deliver through its world class manufacturing facility, formerly the Navistar International truck manufacturing plant.

Loveland, Ohio – Corporate HQ & Battery Pack Assembly Facility



Union City, Indiana – Vehicle Assembly Facility

Business Functions	Expected Overall Growth
Assembly operations	Current capacity for 60,000+ chassis per year
Three buildings on ~265,000 ft^2	Historical capacity of up to 150 chassis per day in single shift
Formerly Navistar International's Workhorse Custom Chassis Business HQ	

Adding to its diversification, Workhorse also owns a two year, 10%, non-dilutable stake in electric pickup-truck maker Lordstown Motors Corp, a competitor to Nikola Motors and Tesla Motors, which today are valued at over $11 billion and $270 billion respectively. Workhorse will receive a royalty fee for every pickup delivered. We recently established a position, and while the share price is up 400%+ this year prior to the fund's position, we believe we are very early in what will be a big decade-long growth

AMARIN™

NASDAQ: AMRN

We have covered Amarin previously but are providing an update on new information. The company's core product, VASCEPA, is a prescription drug used along with certain medicines like statins to reduce the risk of heart attack, stroke and certain types of heart issues. By all accounts, VASCEPA has the potential to be one of the biggest blockbuster drugs of all time, on par with Pfizer's Lipitor. The drug has been shown to reduce the risk of major cardiac events by over 30% with the potential to save millions of lives and reduce total health care costs by tens of billions each year.

However, opportunity always brings competition. Generic drug makers have long eyed the large opportunity VASCEPA presents and have challenged some of Amarin's patents. In a court decision this past March, a US District judge ruled certain VASCEPA patents were invalid based on obviousness; seemingly paving the way for generics to come to market with their own versions of VASCEPA for a narrow use of the drug. However, the bigger risk is that doctors could begin to prescribe generic versions of the drug off-label for broader use and materially encroach on Amarin's bigger business. The stock was sold off and we saw decline from the mid-teens to $4.00 per share.

Our perspective to the ruling is it doesn't make sense that VASCEPA's benefits were obvious when many industry experts were initial skeptics and it required five+ years of trials and multiple submissions to convince both the FDA and the US patent office of the drug's efficacy and safety. Amarin agrees and has appealed. It's evident that the judge made significant procedural errors which suggests that the appellate court may correct the previous decision. A statistical analysis of a small historical study on the benefits of pure EPA (VASCEPA's key compound), that the ruling relied on for obviousness, shows that that study was far from conclusive. The appeals court may seek to address these issues, and there is a rational legal argument that Amarin will prevail on appeal.

What may be most important is that the patents in question pertain only to the U.S. market. The global opportunity for Amarin is enormous and remain intact pending VASCEPA's approval in Europe and Asia later this year. The international opportunity alone exceeds its current market capitalization. Should Amarin lose its appeal, it may simply introduce its own generic version of VASCEPA in the U.S. to make it financially unattractive for others to compete. This will lower the margins significantly, but preserve its ownership of the U.S. market. This scenario should still warrant a market cap of $4-$5 billion, or near double the current value. Should the company win the appeal, it's full steam ahead globally with high margins across all markets and a market cap worth well over $20 billion, or 7-10 current levels. As such, we remain invested with a close eye on the appeal in September.

Economic Outlook

Markets rallied in early July before getting more volatile and trading sideways. A new rally around the middle of the month pushed stock valuations even higher and tried to test the S&P 500 high around 3,400 before taking a 3 day break ahead of earnings season. Coronavirus and a vaccine continue to run this market; not the Fed, not the election. We feel the presidential election and China tensions are not fully priced in yet; investors don't seem to be looking that far ahead.

Broadly speaking, technology has been the place to be as the sector represents the primary vehicle of innovation and productivity in a world forced into lockdown/social distance mode. This has created a very crowded trade in just 5 companies (Amazon, Apple, Microsoft, Facebook and Alphabet) and all trade at rich premiums now. However, these and many other technology companies can retain margins and sustain profitable growth year-over-year. We believe the most important thing is to focus on the underlying fundamental dynamics of the business and take a long-term view. While shares may look expensive over the next 6 to 12 months, the acceleration of digitization resulting from the pandemic means that the earnings power we may have previously expected in five years may now be able to be realized in three years. With tech being the backbone of productivity, a dynamic that has only strengthened over the past few months, we maintain that rather than trading in and out of the names of those companies that are fundamentally strong, we want to remain disciplined, use strength to raise cash, weakness to build positions and maintain elevated cash levels given the heightened uncertainty.

With a lot of the economy still in first or second gear, and a second wave of the virus hitting many U.S. states and foreign countries, there is a lot of risk to both the U.S. and global economy right now. Amidst all the bad news there are some green shoots to help us be optimistic.

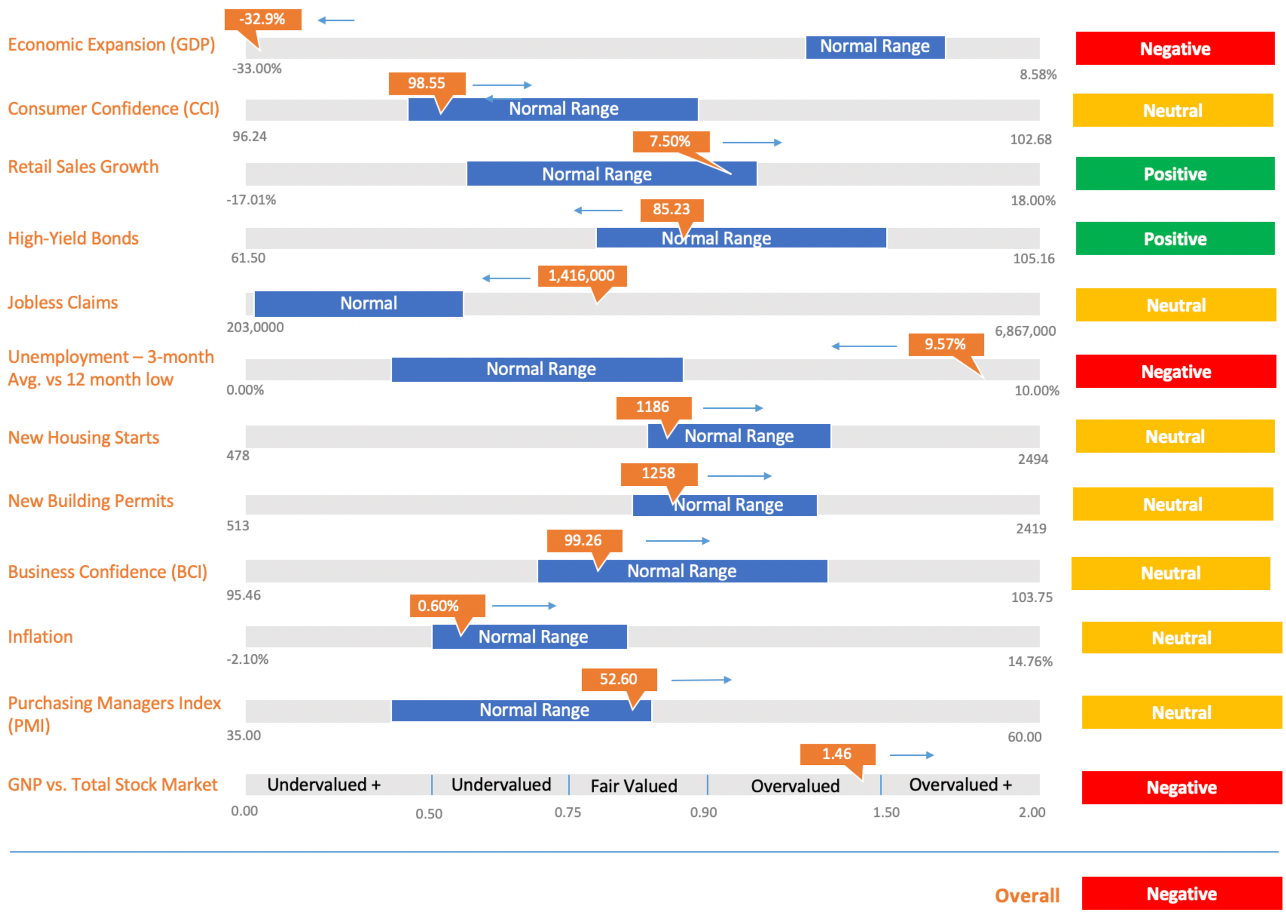
- **Existing home sales increase:** National Association of Realtors (NAR) reported that existing home sales - completed transactions for single-family homes, town homes, condominiums and co-ops - jumped surprisingly 20.7% in June to a seasonally adjusted annual rate of 4.72 million.

- **New home sales increase:** The U.S. Census Bureau reported that new home sales in June jumped 13.8% month over month (+6.9% YoY) to a seasonally adjusted annual rate of 776,000. The reading greatly exceeded expectations for an increase to a 700,000 seasonally adjusted unit rate. Compounding the beat, May's estimate was revised higher, to a 682,000-unit rate, from 676,000 previously reported.

- **Initial Jobless claims decrease**: The Department of Labor reported initial jobless claims for the week ended July 18th was 1,360,250, a decrease of 16,500 from the previous week's revised average of 1,376,750.

The dollar index has continued to weaken, now sitting below the 94 level, and gold prices advanced to just above $1,900, a level not seen since 2011. Our gold position has helped reduce volatility, but is also a meaningful contributor to portfolio returns, up nearly 30% gain for the year.

Economic indicators still signal an overall negative environment for the real economy. Retail sales, unemployment, the Purchasing Managers Index, and even new housing starts, and housing permits are showing signs of improvement, and high-yield bond rates, which is a strong sign of business optimism is within a normal range. These signs are early glimpses of a broader recovery and optimism that a COVID-19 vaccine is close at hand and the nation is re-opening; albeit in a sloppy fashion. In light of this information investors continue to buy stocks.



** Reported Quarterly*

*** Normal economic cycle is considered between 75-100*

**** <300K is indicates expansion, >300K indicates contraction*

***** 3-month average of* 0.50 percentage points above the trailing 12-month low is considered recessionary

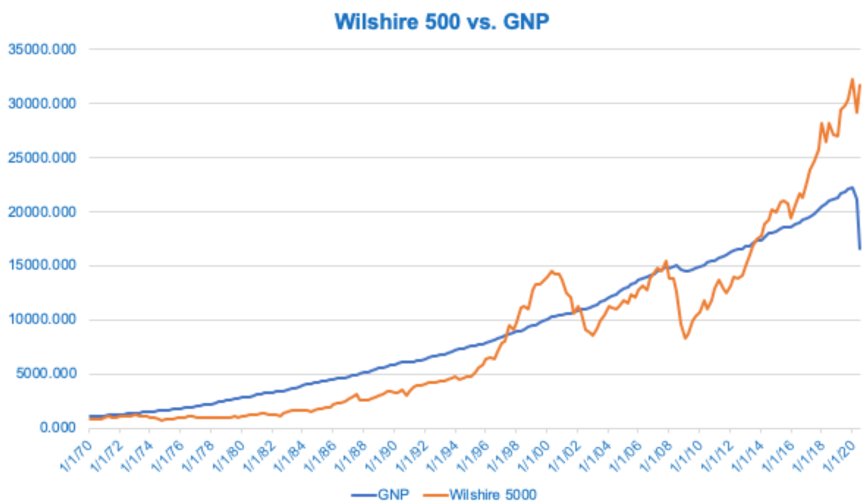
Economic Positive Economic Neutral Economic Negative

Market Valuation

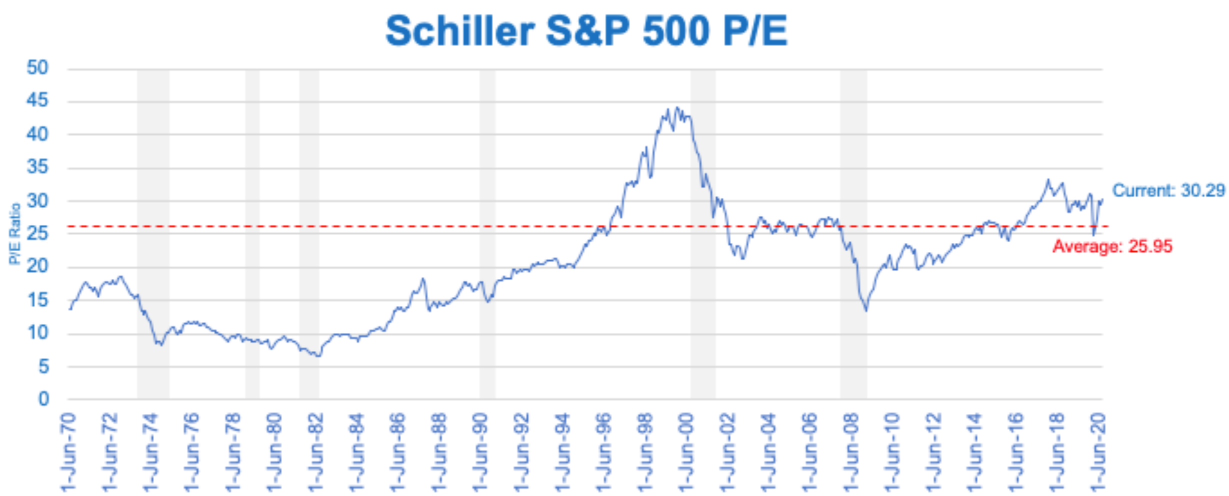
By most historical measures, the broader market is overvalued, and it may remain so until we see a sustainable change in inflation, higher interest rates, and reduced Federal Reserve stimulus.

While we can't predict the duration of this overvalued period, or whether it will be a decrease in price, an increase in earnings or a little of both that will get us back to equilibrium, the bullish investor sentiment is giving us reason for caution and picking our sectors and companies carefully.

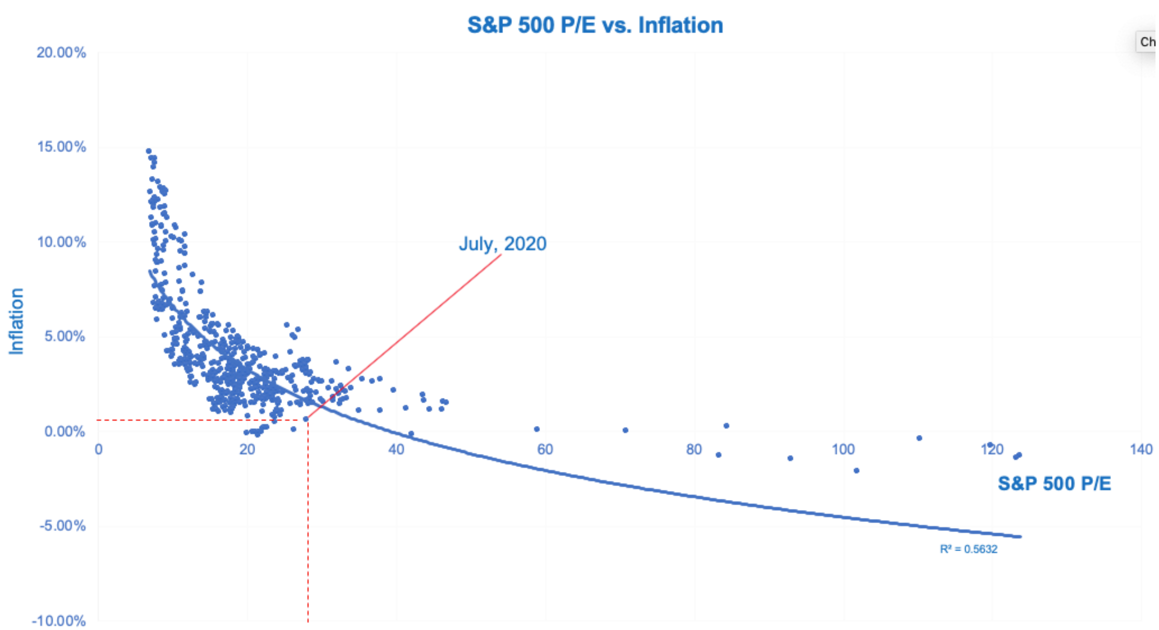
Comparing the Wilshire 5000 vs. the U.S. GNP is probably the single best measure of where valuations stand at any given moment. The Wilshire 5000 has been trending around 30% above the GNP but is momentarily at almost a 90% premium given the big decrease in GNP in Q2. GNP is expected to increase in Q3 and close the gap, but the Wilshire 5000 valuation may also decline to further align with the economy.



That said, the market valuation is highly sensitive to the interest rates as well as inflation. The lower the interest rate and inflation, the higher the market valuation. The Shiller P/E Ratio accounts for these factors by dividing the current index price by that earnings average of last 10 years of earnings adjusted for inflation. The ratio has dropped from 32 in February to a current reading of 30. It is less than 20% above its 10-year average, and indicates that the current valuation for the S&P as a whole, while high, is within a realistic range. There are always multiple ways to look at the same data and come to more reasoned conclusions.



With low inflation and near zero interest rates, it's not unusual for market valuations to remain stretched for some time. With inflation at less than 1%, the non-adjusted P/E of 21 is not completely out of line with historical levels, and we may have to wait for rates and inflation to increase before valuations adjust down.



While market valuations are stretched, in a low interest-rate environment it is not completely abnormal and the market could maintain these levels or even go a bit higher, before reverting to the mean. The fund has been slowly capturing profits at these elevated prices with the expectation of adding back at lower prices. We do this by trimming our most elevated growth stocks when they reach very overbought levels, and then buy them back again after a sell-off correction.

What Excites Us

2H 2020 game changers

The fund has performed well year-to-date, yet some of our holdings where we have the deepest convictions have big catalysts that have yet to play out and should eventually contribute materially to the fund.

The second half of this year and 2021 have significant catalysts. Most of these companies are asymmetrical with bigger upside than downside potential, and we have enough shots on goal that the fund stands to significantly benefit from just one or two meeting expectations.

We continue to find companies disrupting traditional industries with very large markets and are prepared to opportunistically buy on significant declines. COVID-19 has accelerated the adoption of new cloud technologies, medical devices and pharmaceuticals.

We continue to look for companies with very big markets early in the growth cycle that have real societal benefits and long-term sustainability. We are excited about what we have, and also about companies in the following spaces:

- **Solar and alternative power**
- **Payment systems**
- **Cloud computing & storage**
- **Electric vehicles, batteries & software**
- **Biotechnology & pharmaceuticals**
- **Online gaming**
- **Recreation**
- **Housing and mortgage origination**
- **Space & Aerospace technology**
- **Defense & Communications**

What Keeps Us Up at Night

Valuations – Too far, too fast for many

Talks of the economy reopening has created a wave of buying. However, the pendulum always swings too far in both directions and we are at a point where more surgical precision is needed when looking for additional upside. Many technology and healthcare companies have seen their market opportunity increase in a matter of months to a level that was otherwise expected to have taken years. The premium assigned to many of these companies are justified but are nearing the top, if not passed it. Additionally, the enthusiasm has spilled over to other sectors which still struggling. For many companies, there is little evidence of thought as to whether the price of a security already reflects current and projected future news flow, or whether the opening up of the economy might be premature. Prices of many hard-hit companies are up, but we see this as a sign of impatience and poor judgment rather than strength.

Hertz car rental is a great illustration of the current investor optimism in the face of extremely adverse business conditions. Five years ago, Hertz came public and traded around $42-$45/share. By December 2016 the stock collapsed by 50% from the IPO price. On March 18, 2020 HTZ closed at $3.38. On May 23, 2020 Hertz filed for bankruptcy sending the stock to $0.55. This is where all investors should step away, but traders on Robinhood bought HTZ heavily sending the stock back to $5.53 by June 8th for a 905% gain from the low. The fact that the company was in bankruptcy proceedings was meaningless to these investors. We saw similar action in Whiting Petroleum, Spirit Air and others.

Our discipline has served us well so far, and we will stick to where we have deep conviction in what is likely a bumpy ride ahead.