1 General Overview

Monday, 22 October 2018

My expectation is to try to get better every single day," he said, his voice measured. "What I know I can bring to the table is being committed to having excellence every single day, from a mind-set standpoint.
- Lebron James, NY Times, 24th of September, 2018

Open the window and smell the over-leveraged roses!
- Tartaros Investment Partners

Dear Partners:

The Fund finished the third quarter of 2018 -0,80% in the min, versus +0,11% for the Eurostoxx 50 and versus +5% for the MSCI World Index. Year to date the Fund is down -1,62%. The Net Asset Value of the Fund is 207,35 (cf. part 2 for a more detailed Fund overview, for detailed return results and the NAVs of all series).

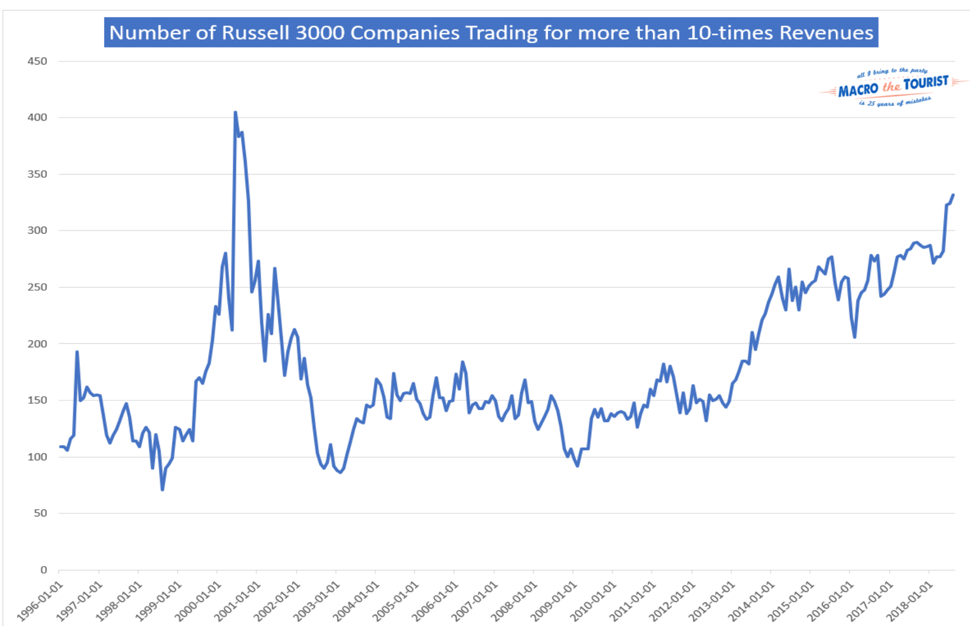
The last quarter of 2018 started pretty brutal with the overall markets down 6% in 3 weeks. The Fund, in contrast, is flat for the 4th quarter of the year.

Returns % (in € - net of all fees)*

2018	*jan*	*feb*	*mar*	*apr*	*may*	*jun*	*jul*	*aug*	*sep*	*oct*	*nov*	*dec*	*ytd*
Fund	-2,01	-1,24	-0,53	1,00	3,49	-1,44	0,88	-1,68	0,02				-1,62

What?! (1)

"At 10 times revenues, to give you a 10-year payback, I have to pay you 100% of revenues for 10 straight years in dividends. That assumes I can get that by my shareholders. That assumes I have zero cost of goods sold, which is very hard for a computer company. That assumes zero expenses, which is really hard with 39,000 employees. That assumes I pay no taxes, which is very hard. And that assumes you pay no taxes on your dividends, which is kind of illegal. And that assumes with zero R&D for the next 10 years, I can maintain the current revenue run rate. Now, having done that, would any of you like to buy my stock at $64? Do you realize how ridiculous those basic assumptions are? You don't need any transparency. You don't need any footnotes. What were you thinking?"
- Scott McNealy, Business Week, April 2002.

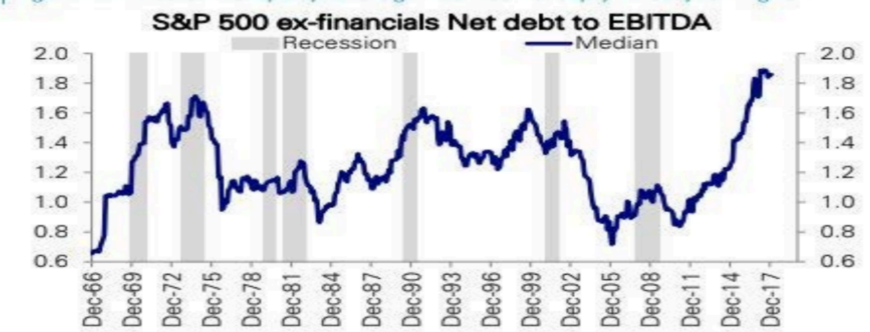


Source: https://www.themacrotourist.com/posts/2018/09/27/jesse/

What?! (2)

“According to Goldman's calculations, Net Debt/EBITDA for its coverage universe as a whole remains near the highest levels this cycle, if not all time high. And while the bank cannot pinpoint exactly when the cycle will turn, it is easy to claim that US companies are “over-earning” relative to their cycle average today, a key points as the Fed continues "normalizing" its balance sheet. Indeed, this leverage picture looks even more stretched when viewed through a “normalized EBITDA” lens (which Goldman defines as the median LTM 2007 Q1-2018 Q2).

Figure 12: Median company leverage has risen sharply to 50 year highs



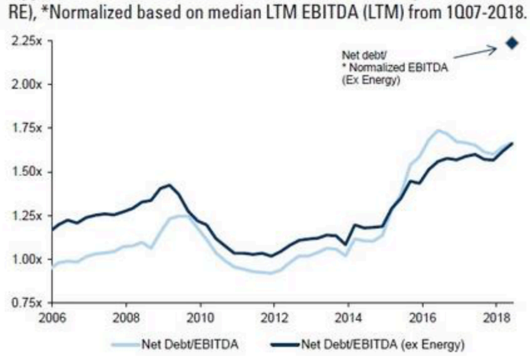
Source: Compustat, Deutsche Bank

There are two main factors that have driven this increase: net debt has increased while cash levels have declined:

- the % of highly levered companies (i.e. >2x Net Debt/EBITDA) have nearly doubled vs. 2007 levels (even after EBITDA has improved for a large part of the Energy sector.)
- The number of companies in a net cash position has declined precipitously to just 15% today down from 25% from 2006-2014.”

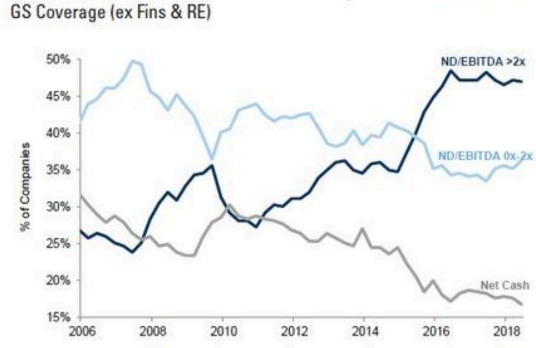
Source: zerohedge

Exhibit 19: Leverage has increased especially on “normalized” EBITDA
Agg. Net Debt/EBITDA (LTM) for North America coverage (ex-Fins & RE), *Normalized based on median LTM EBITDA (LTM) from 1Q07-2Q18.



Source: FactSet, Goldman Sachs Global Investment Research

Exhibit 20: % of companies with ND/EBITDA>2x has almost doubled vs. pre-crisis levels, while % with net cash have halved
% of companies with Net Debt/EBITDA leverage >2x, 0-2x and Net Cash; GS Coverage (ex Fins & RE)

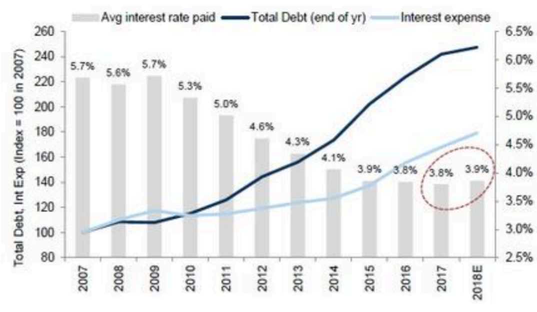


Source: FactSet, Goldman Sachs Global Investment Research

Exhibit 7: IG and HY Credit yields have moved higher over the past year...
US 10 Yr Treasury Yield; ICE BAML US Investment Grade and High Yield (YTW)

Source: FactSet, Goldman Sachs Global Investment Research

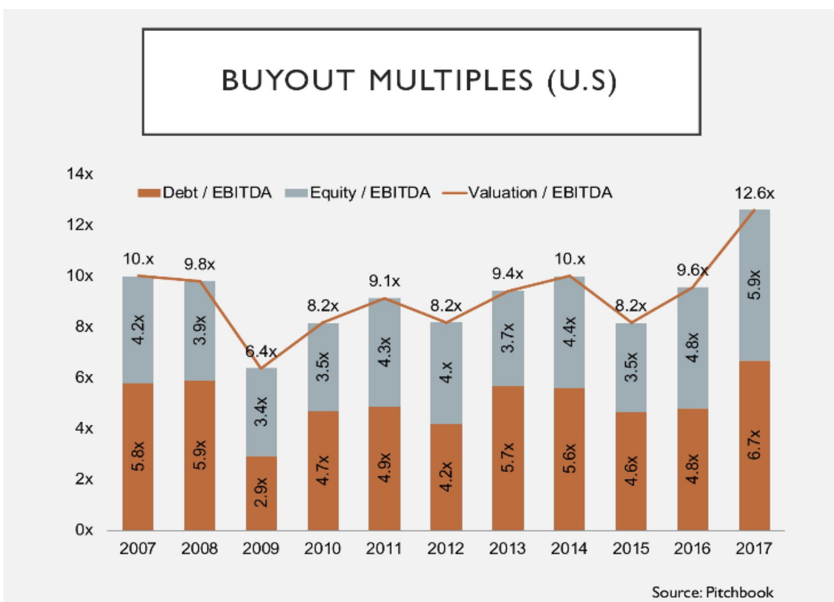
Exhibit 8: ...which is driving an increase in interest costs for the first time this cycle
Aggregated for N. America Coverage (Ex. Financials & Real Estate)



Source: FactSet, Goldman Sachs Global Investment Research

What?! (3)

"Investors have allocated more capital to private equity over the past five years than at any time in history. Dry powder, or uncalled capital, has been on the rise since 2012 and hit a record high of 1,7 trillion usd in December 2017. The debt markets, meanwhile, are red hot, offering general partners (GPs) a golden opportunity to fund transactions with hefty levels of low-cost leverage. The average debt multiple in 2017 stretched toward six times earnings EBITDA and several prominent deals carried even more leverage." (source: https://www.forbes.com/sites/baininsights/2018/03/22/private-equity-deal-value-rises-in-a-crowded-market/#7e3afcbd3537).



The average deal multiples in the United States rose dramatically in 2017, to roughly 12,5 times EBITDA, according to PitchBook Data. That is higher than the previous all-time highs, which were reached prior to the financial crisis.

What?! (4)

Katia Porzecanski
@KatiaPorzo

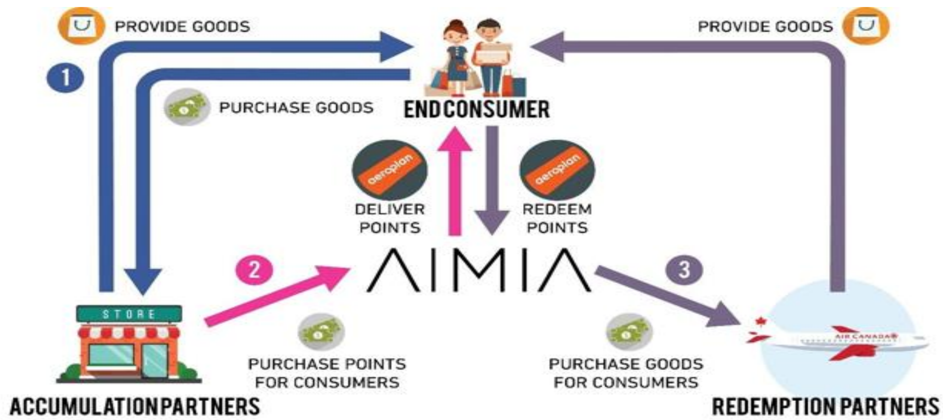
Follow

whenever you need a reminder of how distorted this world had become just pull up a chart of the Argentina century bond and remember that someone bought those bonds at 104.

12:14 PM - 5 Sep 2018

In June 2017 Argentina issue 2,75 billion usd of oversubscribed 100-year bonds despite a financial history marked by crises in 1980, 1982, 1984, 1987, 1989 and 2001. The bond was priced at 90 for a yield of 7,92%. Now it's trading at 75, implying a mark-down of 17% in 16 months.

Changes in the Fund's Portfolio (cf. 2.2. Fund Positions for more details)



Source: Ivey Business Review, January 12, 2018, M. Kramer and H. Bhaskar

Aimia operates and owns loyalty programs. The business / accumulation partners of Aimia buy points that Aimia creates. Those points are then distributed to their loyalty card members. The members can redeem the points for rewards such as airline miles or gift cards. In the interim, Aimia has "investable float" from the cash that has been paid for points that have yet to be redeemed. Additionally, a healthy percentage of points are never redeemed and Aimia gets to keep as free profit (i.e. breakage = points expire without being redeemed).

On May 11 of last year Aimia was notified by Air Canada that they would not be renewing their relationship after it expired in 2020. The share price of Aimia fell more than 60 per cent the morning following this announcement. The evaporation of 850 million cad in market value reflected the serious doubt cast on the future of the company. The bear argument was that the Aeroplan business was permanently impaired.

During the summer of 2017, we made an investment (both in the common equity and the bonds) based on the case that as long as the Aeroplan business did not have a negative value, the rest of the company's assets were basically worth a multiple of the then equity value; offering a sizeable margin of safety. The biggest problem was the legacy board and management.

In May of this year activist investors replaced almost the whole legacy board and Jeremy Rabe was made CEO of the company. Jeremy Rabe was a.o. responsible for the management of Club Premier, Mexico's leading and very successful coalition loyalty program (still 48,9% owned by Aimia).

On August 21st, 2018, Air Canada together with a group that includes TD Bank ,CIBC (and Visa Canada Corp (Air Canada and group) offered a deal to acquire the Aeroplan loyalty program from Aimia. Aimia agreed to the deal to sell the Aeroplan loyalty program for 450 million cad in cash plus a (points) liability of approximately 1,9 billion cad related to the Aeroplan program.

Following the sale, Aimia has a boatload of cash, 500-600 million cad tax shield, a stake in the listed CDLX, and the 48,9% owned and very valuable PLM.

Aimia is currently (corporate bond + common equity) a 4,78% fund position. Since our investment made during the summer of 2017, the share price of Aimia proved once again the fickleness of Mr. Market.

Must reads

Whatever problem you're struggling with is probably addressed in some book somewhere written by someone a lot smarter than you.
- Ryan Holiday

A must read (and yearly re-read) about the current market climate and the seven worst words in the investment world: "too much money chasing too few deals":

https://www.oaktreecapital.com/docs/default-source/memos/the-seven-worst-words-in-the-world.pdf

Administration and the next update

You should receive the next investment letter by the middle of January at the latest.

As always, please email or call us with any questions you have.

Enjoy the fall!

The Tartaros Team

2 Fund Overview

2.1 General Overview (end of Q3 2018)

	Asset Class
Equities	46,64%
Preferred Equities	0,60%
Corporate Bonds	1,73%
Cash	51,03%
	100,00%

	Currencies
USD	48,96%
EUR	14,59%
CAD	17,12%
YEN	11,32%
HKD	7,20%
NOK	0,81%
	100,00%

	Industry (as % of Fund)
Mining	6,12%
Services	7,86%
Pharma	0,62%
Telco & Info	7,79%
Basic Industries	8,23%
Mining Services	0,26%
Retail-Wholesale	9,58%
Real Estate	8,51%

2.2 Fund Positions

We have no short positions and no leverage. We are invested long in 27 positions.

The portfolio is invested in companies across a range of market capitalizations:

Market Capitalizations in USD	*% of equities invested*
> 5 Billion	0%
1< 5 Billion	4%
0,5 < 1 Billion	15%
< 0,5 Billion	81%

Position	*% of portfolio*
Cash	51,03%
Investment 1	6,28%
Investment 2	5,56%
Investment 3	4,78%
Investment 4	4,40%
Investment 5	4,18%

It should be noted that all numbers are approximations.

2.3 NAV Series

TARTAROS FIS SCA GLOBAL VALUE CL A CAP	207,35
TARTAROS FIS SCA GLOB VALUE S CAP 311216	95,94
TARTAROS FIS SCA GLOB VALUE T CAP 310317	93,66
TARTAROS FIS SCA GLOB VALUE U CAP 300917	100,68

2.4 Return Overview

Below are the results of the Tartaros Global Value Fund for 2018; also shown is the return of two major market indices (we would like to stress that there is no specific benchmark for the Fund; the comparison to the market index is only provided as an indication to the broader market context):

Returns % (in € - net of all fees)*

2018	*jan*	*feb*	*mar*	*apr*	*may*	*jun*	*jul*	*aug*	*sep*	*oct*	*nov*	*dec*	*ytd*
Fund	-2,01	-1,24	-0,53	1,00	3,49	-1,44	0,88	-1,68	0,02				-1,62
Msci world	1,27	-2,90	-2,63	2,92	3,85	-0,20	2,86	1,33	0,82				7,34
Eurostoxx 50	3,01	-4,72	-2,25	4,12	-2,67	-0,32	3,83	-3,76	0,19				-2,99

*The MSCI World is a stock market index of “world” stocks. It is maintained by M.S.C.I., formerly Morgan Stanley Capital International. The index includes equities from 23 countries, and has been calculated since 1969.
* The EURO STOXX 50 Index, Europe's leading Blue-chip index for the Eurozone, provides a Blue-chip representation of supersector leaders in the Eurozone. The index covers 50 stocks from 12 Eurozone countries.
*Please note that individual investor net returns will vary due to the timing of one's investment. The 2018 results reported above are unaudited estimates and may be subject to change.