1 General Overview

Saturday, 12 January 2019

"For everything there is a season, and a time for every purpose under heaven…
- Ecclesiastes 3:1-8

"The things that lead us astray are short term… The things we call character endure over the long term – courage, honesty, humility."
- David Brooks, The Road to Character

Dear Partners:

The Fund finished the fourth quarter of 2018 -5,35% in the min, versus -12,14% for the Eurostoxx 50 and versus -12,34%% for the MSCI World Index. The 2019 return of the Fund is -6,88% vs -14,77% for the Eurostoxx 50 and -5,91% for the MSCI World Index. The Net Asset Value of the Fund is 196,25 (cf. part 2 for a more detailed Fund overview, for detailed return results and the NAVs of all series).

Returns % (in € - net of all fees)*

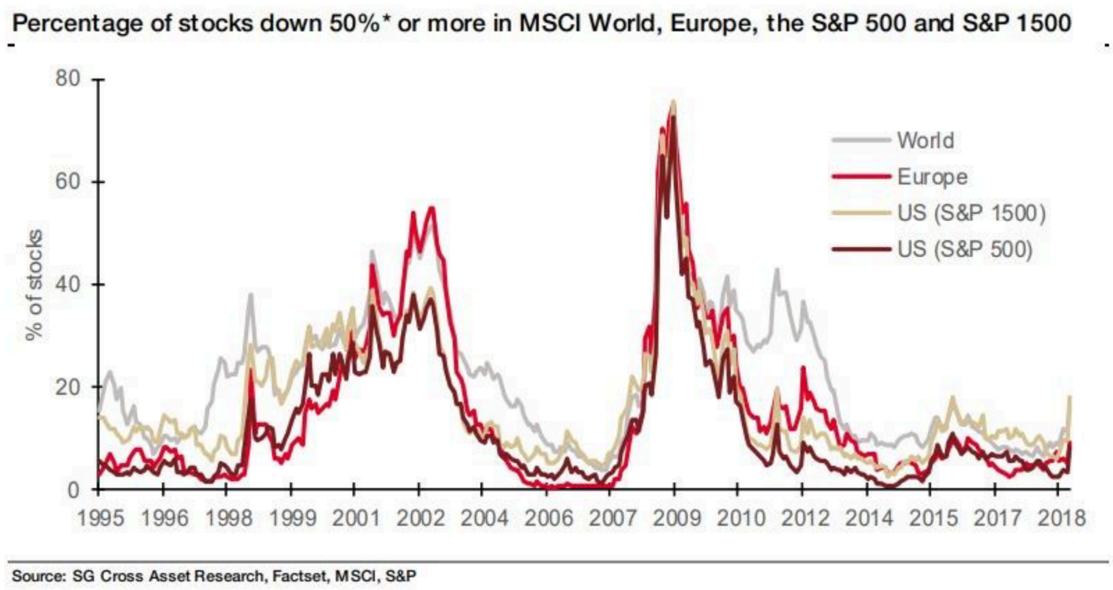
2018	*jan*	*feb*	*mar*	*apr*	*may*	*jun*	*jul*	*aug*	*sep*	*oct*	*nov*	*dec*	*ytd*
Fund	-2,01	-1,24	-0,53	1,00	3,49	-1,44	0,88	-1,68	0,02	-0,13	-1,41	-3,88	-6,88

*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.

It should be noted that the Fund finished December very poorly because our 3 biggest positions (cf. infra: Changes in the Fund's Portfolio) dropped substantially in price the last 2 weeks of the year without any economic reason whatsoever; just because Mr. Market felt like it.

An unexpected drop in price without any clear economic reason is obviously always preferable to an expected price drop based on deteriorating fundamentals or bad economic news, but the frustration remains the same, maybe even more so. Then again, if share prices never fell, there would be no opportunities to invest in companies cheaply.

What?! (1)



What?! (2)

"Thousands of shale wells drilled in the last five years are pumping less oil and gas than their owners forecast to investors, raising questions about the strength and profitability of the fracking boom that turned the U.S. into an oil superpower.
The Wall Street Journal compared the well-productivity estimates that top shale-oil companies gave investors to projections from third parties about how much oil and gas the wells are now on track to pump over their lives, based on public data of how they have performed to date.
Two-thirds of projections made by the fracking companies between 2014 and 2017 in America's four hottest drilling regions appear to have been overly optimistic, according to the analysis of some 16,000 wells operated by 29 of the biggest producers in oil basins in Texas and North Dakota.

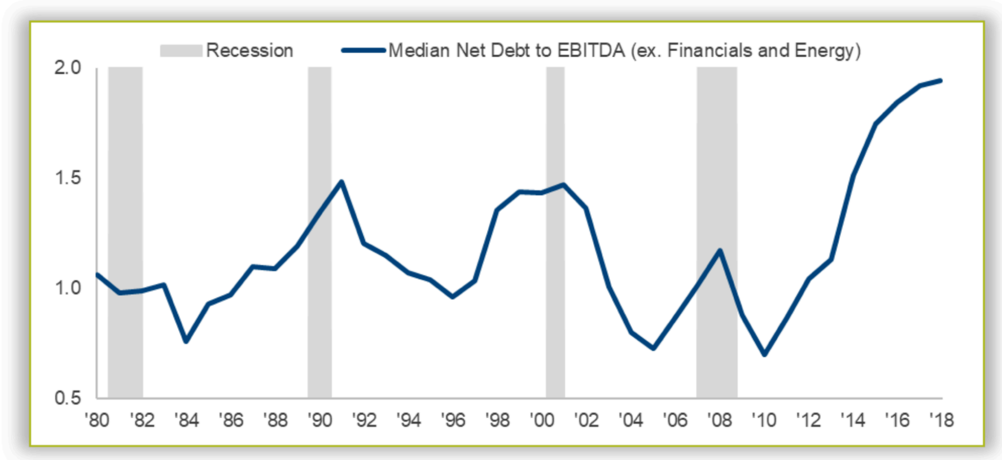
…

Shale companies have attracted huge amounts of capital from Wall Street over the past decade. So far, investors have largely lost money. Since 2008, an index of U.S. oil-and-gas companies has fallen 43%, while the S&P 500 index has more than doubled in that time, including dividends. The 29 companies in the Journal's analysis have spent $112 billion more in cash than they generated from operations in the last 10 years, according to data from FactSet, a financial-information firm."

Source: https://www.wsj.com/articles/frackings-secret-problemoil-wells-arent-producing-as-much-as-forecast-11546450162?mod=hp_lead_pos7

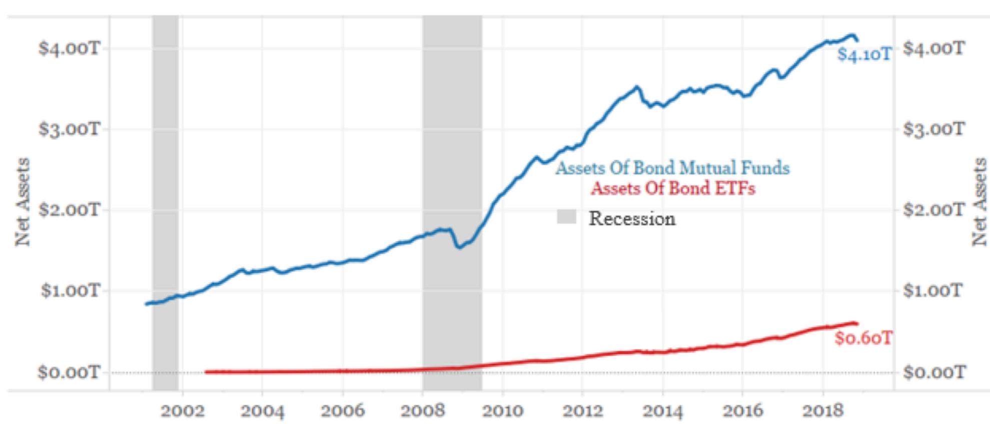
What?! (3)

Net Leverage of Russell 3000 Companies
(Ratio of Net Debt to EBITDA)[26]



EBITDA should not be confused with cash flow. A proper analysis requires the deduction of maintenance capital spending at the very least.

Assets of Bond Mutual Funds vs Bond ETFs[35]



"To date, the increase in supply of corporate bonds has partially been soaked up by the increase in corporate bond exchange traded funds (ETFs). Such passive funds have grown from an immaterial amount in 2008 to $600 billion today.

A relevant trait of most such funds is that they transact indiscriminately with frequent, ratable purchases and sales – a function of ETF inflows or outflows, respectively – that can drive bond prices to both new highs and new lows. In a downturn, passive investment vehicles could be forced to indiscriminately sell those investment grade bonds that the ratings agencies have downgraded to junk."

Source: https://fpa.com/docs/default-source/funds/fpa-crescent-fund/literature/risk-is-where-you're-not-looking.pdf?sfvrsn=6

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

The sale by Aimia to Air Canada of all of the shares of Aimia Canada Inc., owner and operator of the Aeroplan loyalty program, following the share purchase agreement entered into by the parties on November of last year, cleared all regulatory requirements at the end of last year. Aimia shareholders formalized their approval in a near-unanimous vote during a special meeting of shareholders held last Tuesday. The company said it expects the deal to close in the coming days.

EZcorp (cf. Tartaros Investment Letter 2018 Q1), the Fund's largest position, at one point during 2018 was a double form our cost base, but despite delivering good economic results the share price of the company ended 2018 below our average 2017 entry price.

EZcorp's biggest competitor, FirstCash (FCFS) is currently trading at 20 x 2019 expected earnings and an EV/EBITDA multiple of 13. Although FCFS clearly deserves a higher multiple due to its markedly better corporate governance and shareholder friendly policy (dividends and buybacks), a 12x P/E discount or an almost 10x EBITDA discount seems a very harsh, dare we even say, a completely irrational treatment of Mr. Market of EZcorp.

C. Uyemura (cf. Tartaros Investment Letter 2017 Q1) is a pure play in electroplating chemicals and is one of the 4 Japanese players. Globally, C. Uyemura would rank in the top 5 (with a high single digit market share), after the big global players. The founding family sowns a 25% stake in the company.

At the current price approximately 55% of its market cap is covered by cash and 75% is covered by cash and its real estate and equity holdings; this equates to approximately 5x P/E (after subtracting the excess cash).

Keck Seng Holdings is a diversified real estate investment holding company with hotel assets in Vietnam, the United States, the United Kingdom, Japan, China, Canada and Singapore. Its properties include a.o. the W San Francisco, Sofitel New York, the Sheraton Saigon, and Best Western in Osaka. The founding Ho family owns 75% of shares.

The holding company is currently trading at a 55% discount to its book value. Moreover, the company also owns Macau residential properties that are on its books at approximately 300 mio HKD and that should easily be worth 5 times that.

The recent opening of the bridge to Hong Kong Airport (https://en.wikipedia.org/wiki/Hong_Kong–Zhuhai–Macau_Bridge), originally scheduled for 2016, has now made Macau substantially more accessible to the 2 billion people living within a 3 hour flight. The bridge will cut the driving time between Hong Kong and Macau from over 4 hours to less than an hour, and could potentially lift Macau real estate values even further.

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 about the "profitless prosperity":

http://adventuresincapitalism.com/2019/01/03/profitless-prosperity-sector-will-collapse/
A must read about the U.S. stock market:

https://www.gmo.com/docs/default-source/research-and-commentary/strategies/asset-allocation/the-late-cycle-lament-the-dual-economy-minsky-moments-and-other-concerns.pdf?sfvrsn=3

A must read about how with excessive short-term pressure, even the wisest and most capable fiduciaries can bend and even break:

https://www.alumni.hbs.edu/stories/Pages/story-bulletin.aspx?num=6818

Administration and the next update

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

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

The Tartaros Team

2 Fund Overview

2.1 General Overview (end of Q4 2018)

	Asset Class
Equities	43,22%
Preferred Equities	1,95%
Corporate Bonds	1,83%
Cash	53,00%
	100,00%

	Currencies
USD	50,06%
EUR	13,31%
CAD	17,98%
YEN	10,69%
HKD	7,20%
NOK	0,76%
	100,00%

	Industry (as % of Fund)
Mining	7,63%
Services	7,11%
Telco & Info	6,67%
Basic Industries	9,11%
Mining Services	0,24%
Retail-Wholesale	5,28%
Real Estate	7,18%

2.2 Fund Positions

We have no short positions and no leverage. We are invested long in 22 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	0%
0,5 < 1 Billion	18%
< 0,5 Billion	82%

Position	*% of portfolio*
Cash & Cash Equivalents	51,03%
Investment 1	5,27%
Investment 2	4,93%
Investment 3	4,87%
Investment 4	3,68%
Investment 5	3,21%

It should be noted that all numbers are approximations.

2.3 NAV Series

TARTAROS FIS SCA GLOBAL VALUE CL A CAP	196,25
TARTAROS FIS SCA GLOB VALUE S CAP 311216	90,81
TARTAROS FIS SCA GLOB VALUE T CAP 310317	88,65
TARTAROS FIS SCA GLOB VALUE U CAP 300917	95,30
TARTAROS FIS SCA GLOB VALUE V CAP 310818	94,67

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	-0,13	-1,41	-3,88	-6,88
Msci world	1,27	-2,90	-2,63	2,92	3,85	-0,20	2,86	1,33	0,82	-6,26	2,28	-8,57	-5,91
Eurostoxx 50	3,01	-4,72	-2,25	4,12	-2,67	-0,32	3,83	-3,76	0,19	-5,93	-0,76	-5,88	-14,77

*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.