1 General Overview

Wednesday, 8 January 2020

If you drill down on any success story, you always discover that luck was a huge part of it. You can't control luck, but you can move from a game with bad odds to one with better odds. You can make it easier for luck to find you. The most useful thing you can do is stay in the game.
- Scott Adams

Dear Partners:

The Fund finished the fourth quarter of 2019 2,98% in the plus, versus +5,01% for the Eurostoxx 50 and versus +5,03% for the MSCI World Index. We finished the year 13,86% in the plus.

The Net Asset Value of the Fund is 223,46 (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)*

2019	*jan*	*feb*	*mar*	*apr*	*may*	*jun*	*jul*	*aug*	*sep*	*oct*	*nov*	*dec*	*ytd*
Fund	3,88	2,20	1,04	1,01	-3,29	+3,89	2,79	-0,41	-0,80	0,66	1,56	0,74	13,86

*Please note that individual investor net returns will vary due to the timing of one's investment. The 2019 results reported above are unaudited estimates and may be subject to change. And always remember the wise words from Morgan Housel that "**Many failures can be traced to the pointless pursuit of arbitrary benchmarks.** Most notable is the calendar, which pushes companies and investors to cut corners before the earth completes its rotation around the sun. Swap out the sun for another celestial body and you've described a mental illness. Another is index benchmarks, which use something short-term and broad (industry performance) to guide something long-term and specific (a strategy to meet your goals).

What?! (1)

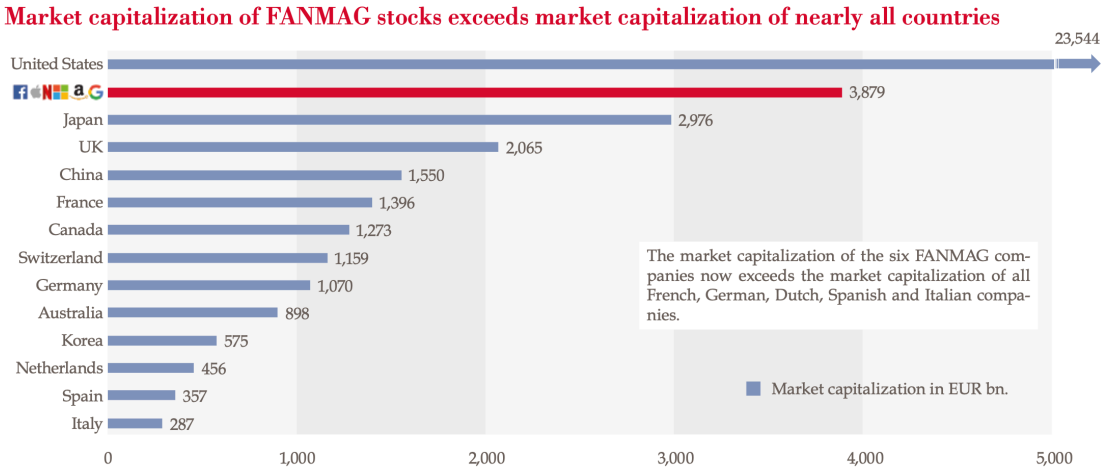
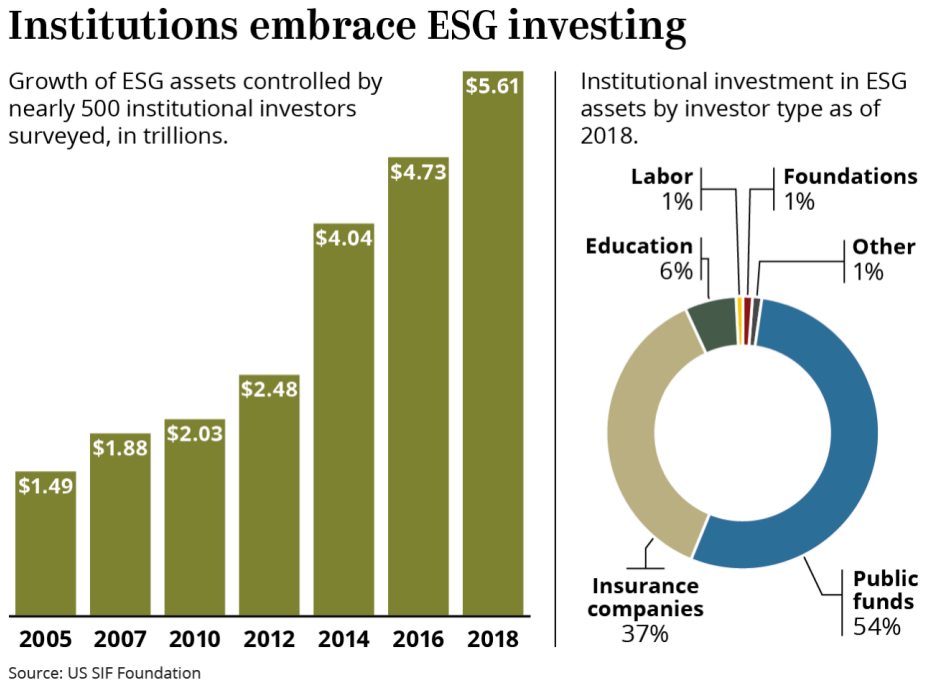


Figure 4: All data in EUR bn. as of 07/31/2019 based on MSCI country indices. Source: Thomson Reuters, MSCI , Research Affiliates and own calculations.

Source: www.starcapital.de

What?! (2)

Public funds taking the lead in a spectacular boom (bubble anyone?) of ESG investing:



Source: https://www.pionline.com/special-report/public-funds-taking-lead-spectacular-boom-esg

This chart reminds us of two sociological laws. Goodhart's law – named after economist Charles Goodhart – states that when a measure becomes a target, it ceases to be reliable.

Goodhart's law is very similar to Campbell's law, named after social scientist Donald Campbell. Campbell's law states: the more any quantitative social indicator is used for social decision-making, the more subject it will be to corruption pressures and the more apt it will be to distort and corrupt the social processes it is intended to monitor.

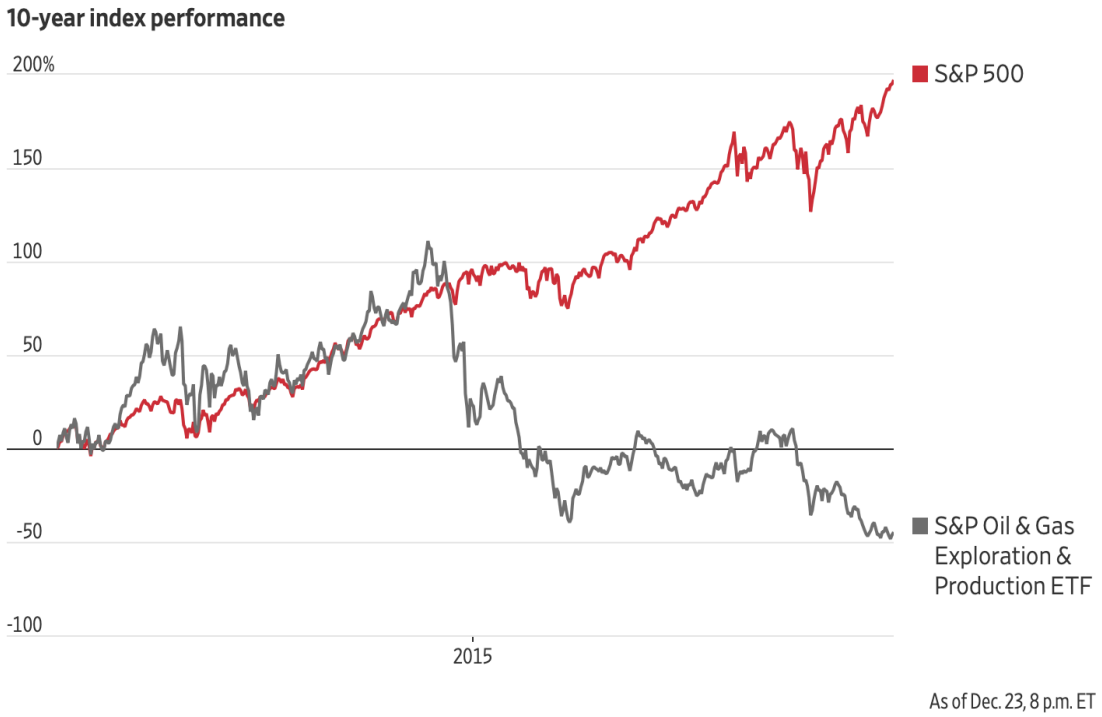
But more importantly, if everybody – egged on by the institutional imperative – is running one way, you should at least have a look in the other direction.

So, then you see headlines like

"Utilities don't want Peabody Energy's "clean coal" awards anymore."
source: https://www.energyandpolicy.org/utilities-dont-want-peabody-energys-clean-coal-awards-anymore/

or

"Peabody Energy – with a net debt to EBITDA ratio of 0,42 based on annualizing their first half 2019 earnings – said it terminated its cash tender offers to buy back debt, saying the markets didn't cooperate." source: https://www.marketwatch.com/story/peabody-energys-stock-tumbles-toward-record-low-after-terminating-cash-buybacks-of-debt-2019-09-20



*Four week average
Sources: Energy Information Administration; FactSet (index performance)

Source: www.wsj.com

It is obvious that the shale energy boom has fundamentally changed the supply-demand dynamics for oil, gas and coal around the world over the last ten years, but investors have received less than nothing in return:

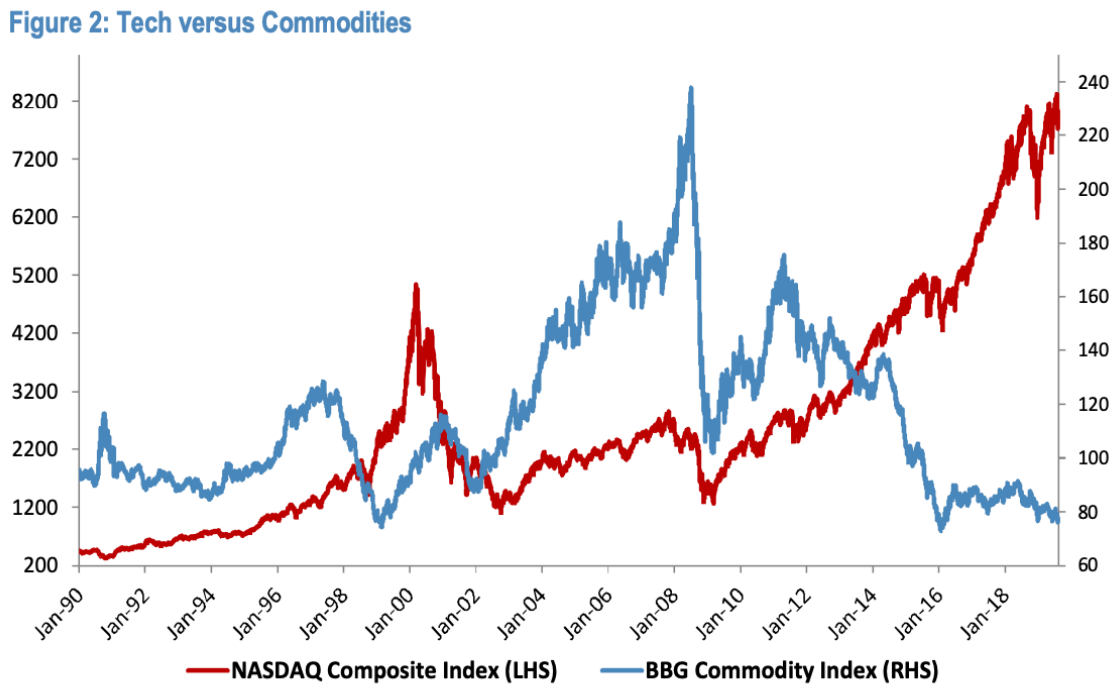
"Barron's: So why did the shale boom take off in the first place, and why do you think it's ending?

West: I think that there were a few things that conspired in 2010 to create what people term the oil-shale revolution. And that was low interest rates, high oil prices, wide-open debt markets and wide-open equity markets for energy companies to raise capital and chase oil shale. Since that time, energy companies spent well over $1 trillion in capex, and have returned somewhere around $700 billion in cash flow to the energy (exploration-and-production) companies. Very little if almost zero of that went to shareholders, for a nice juicy negative 38% cash-on-cash return. So we clearly have an economic problem with the model."

Source: https://www.barrons.com/articles/shale-oil-boom-wanes-bakken-eagle-ford-permian-basin-51574371440

And we are reminded that investment opportunities normally can be found where capital is scarce.

What?! (3)



Source: Bloomberg.

What?! (4)

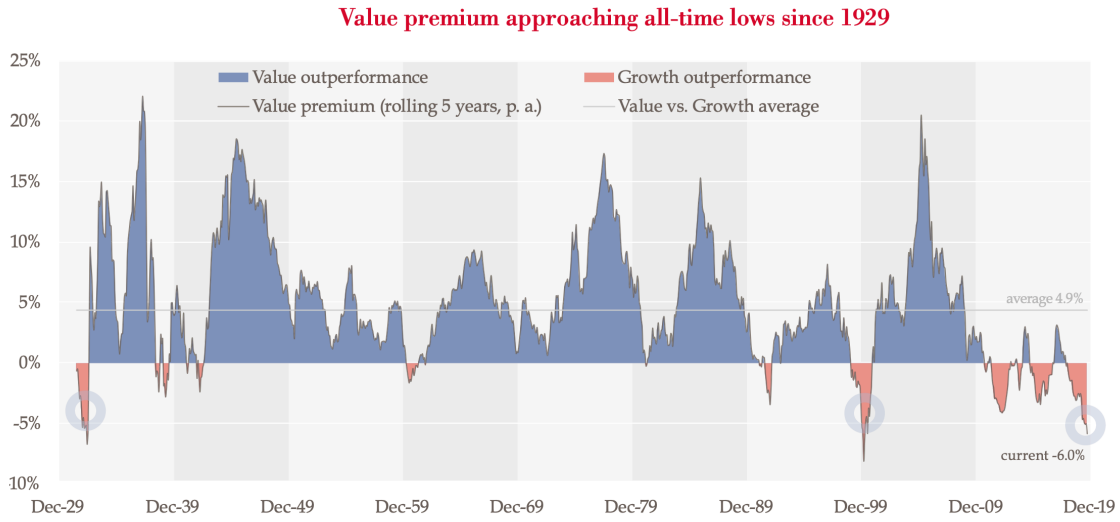


Figure 1: The chart shows the average outperformance over 5 years of Value stocks compared to Growth stocks since 1929 based on the Fama-French HML factor (p.a.). Source: Fama, French, StarCapital as of August 2019.

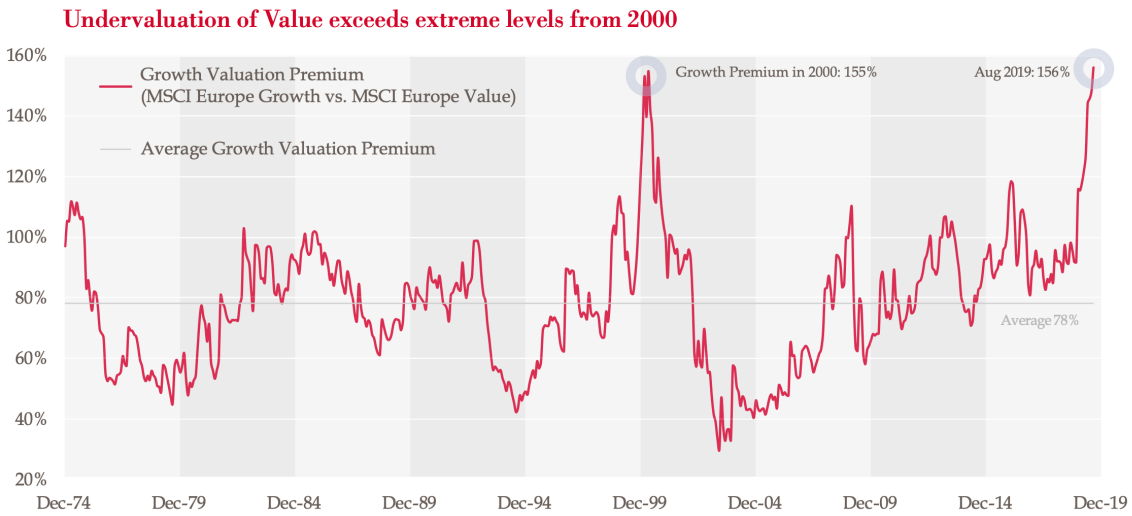


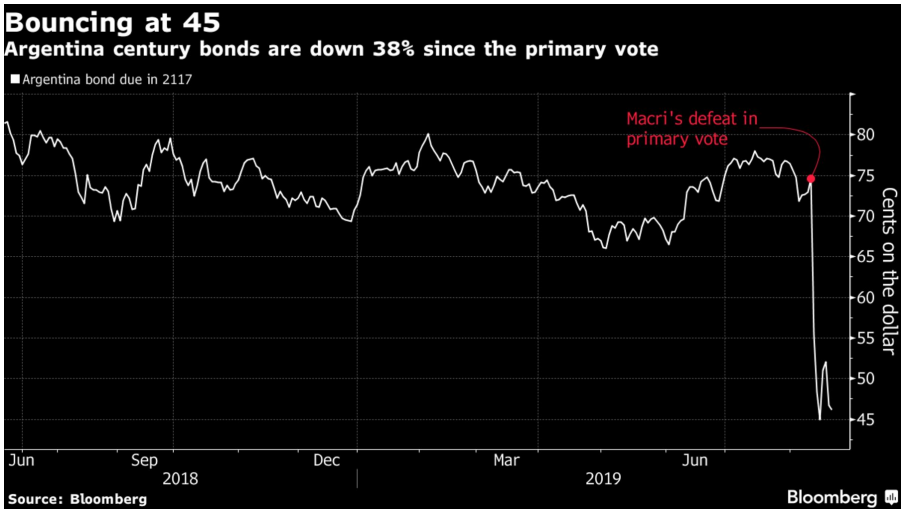
Figure 5: Average valuation premium based on PE, PC, PB and Div. Yield of MSCI Europe Value vs. MSCI Europe Growth as of 08/31/2019. Source: Thomson Reuters, StarCapital.

Source: www.starcapital.de

What?! (5)

In the 2018 Q3 letter to the partners, we mentioned the following:

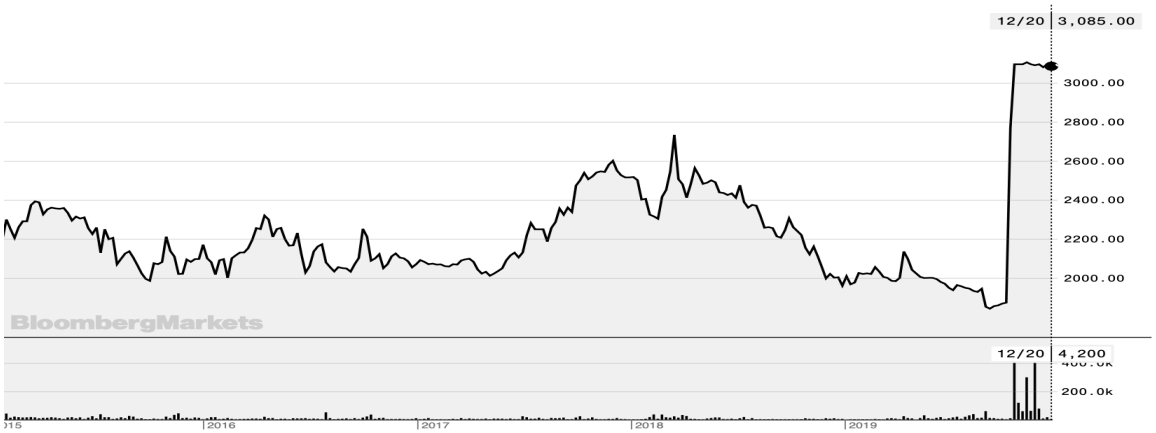
In June 2017 Argentina issued 2,75 billion usd of oversubscribed 100-year bonds despite a financial history marked by crises in 1980, 1982, 1984, 1987, 1989 and 2001. The bond even traded above 100 more than a year ago. Now it's trading at less than 50.



In the end, this proves that – over and over again – we don't learn that we don't learn.

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

Our Sotsu thesis finally came to fruition when Bandai Namco, the third largest video game publisher in Japan by revenue and the seventh in the world, announced on the 9th of October that Sotsu would become a wholly owned subsidiary as a result of a tender offer and subsequent series of transactions for the purpose of acquiring the owner of the Gundam – https://en.wikipedia.org/wiki/Gundam – franchise. It was a 3,78% Fund position when we tendered the Fund's shares for a 300% return. It should be noted that Bandai Namco got the company on the insanely cheap for and EV/EBIT multiple of approximately 7!



After a string of bad to terrible decisions by the management of EZCorp, they finally made a decent one. On the 5th of December, the board of directors of EZCorp announced – together with okayish financial results - a stock repurchase program that will allow the company to repurchase up to 60 million usd of its Class A Non-Voting common shares over the next three years; i.e. almost 20% of its market capitalization at the

time of the announcement. An announcement is a start, but the proof of the pudding will be in the actual eating (of the company's shares)!

On the 18th of November Mittleman Investment Management, owning over more than 23% of Aimia's outstanding shares, announced that they had entered into a comprehensive settlement agreement with Aimia and with Mr. Charles Frischer, who together with certain other shareholders, owned not less than 5% Aimia.

All pending legal proceedings were terminated and the special meeting of shareholders was cancelled. All of the current, non-management directors, excluding Phil Mittleman, have confirmed that they do not intend to, and will not, stand for election to the Board at the 2020 annual meeting. The parties also have agreed to a governance process with a view to reconstituting the board of directors of Aimia (with the exception of Phil Mittleman) by no later than the end of February.

Concurrently with the agreement, Aimia also approved a further significant capital return to both preferred and common shareholders by way of concurrent substantial issuer bids for an aggregate purchase price of up to 125 million cad:

(a) up to 62,5 million cad of its common shares at a fixed price of 4,25 cad per share,
(b) up to 31,25 million cad of its preferred shares (series 1 and series 2) at a fixed price of 17,20 cad per share, and
(c) up to 31,25 million cad of its preferred shares series 3 at a fixed price of 19,00 cad per share.

On the 15th of November, the last full trading day before the date of this announcement, the closing price of the common shares on the Toronto Stock Exchange was 3,63 cad.

Sometimes you find something that is close to a free lunch. In the first quarter of 2017 we made a small investment in the preferred shares of Dream Unlimited (DRM). DRM is a Canadian land and real estate developer and a real estate and infrastructure asset manager. DRM had a common shares market cap of approximately 780 million cad vs a market cap of approximately 40 million cad for the preferred shares.

The preferred shares were retractable by the corporation at 7,16 cad per share, and redeemable by the shareholder at 7,16 per share; in both cases with accrued dividends (7% coupon on a 7,16 par value).

The only risk was if the underlying corporation Dream Unlimited elects to pay the redemption with common shares; i.c. 95% of the 20 day volume weighted average price. At 7,16 cad per share we believed there was no long term downside (when paid in common shares) and we got a 7% yield to wait until the company redeemed the shares (in cash or shares).

Unfortunately, on the 20th of December, DRM redeemed all of its outstanding preferred series 1 shares at a price of 7,27032 cad per share. The 0,79% position of the Fund was redeemed at a 16% "free lunch" return.

It should be noted that we still have a very modest investment in two other preferred shares: (a) a biologics contract development and manufacturing organization yielding just under 10% at our cost basis, and (b) an independent power producer at an 8,8% yield.

We made a small investment in a corporate bond of a U.S. multinational cosmetics, fragrance, skin and personal care company that was founded in 1932. The bond – at the Fund's cost price – has a yield to

maturity (beginning of 2021) of more than 20%. We expect the corporate bond to be refinanced before the end of the year.

Finally, we are in the process of building a stake in an interbroker-dealer. More on that investment in the next investment letter.

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 end of value investing:

https://www.starcapital.de/fileadmin/user_upload/files/publikationen/Kapitalmarktforschung/2019-11_End_of_Value_premium.pdf

A must watch about the riskiest investment you can make today:

https://www.youtube.com/watch?v=X12VgCZDU1c

A must read about private equity, the illiquidity discount and why it's easier to live with:

https://www.aqr.com/Insights/Perspectives/The-Illiquidity-Discount

Administration and the next update

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

In the meantime, please email or call us with any questions you have.

Thank you for your trust. We work diligently to grow your capital alongside ours.

We wish you a Happy and Healthy New Year… stay in the game!

The Tartaros Team

2 Fund Overview

2.1 General Overview (end of Q4 2019)

	Asset Class
Equities	43,45%
Preferred Equities	1,28%
Corporate Bonds	1,76%
Cash (Equivalents)	53,51%
	100,00%

	Currencies
USD	56,09%
EUR	1,49%
CAD	15,50%
YEN	14,63%
HKD	6,14%
GBP	5,21%
NOK	0,94%
	100,00%

	Industry (as % of Fund)
Materials	16,47%
Industrials	2,89%
Consumer Discretionary	5,45%
Financial Services	9,77%
InfoTech	1,28%
Communication Services	7,59%
Utilities	0,70%
Health Care	0,58%

2.2 Fund Positions

We have no short positions and no leverage. We are invested long in 21 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	29%
0,5 < 1 Billion	19%
< 0,5 Billion	52%

Position	*% of portfolio*
Investment 1	5,58%
Investment 2	4,98%
Investment 3	4,33%
Investment 4	4,27%
Investment 5	3,43%

It should be noted that all numbers are approximations.

2.3 NAV Series

TARTAROS FIS SCA GLOBAL VALUE C1 A CAP	223,46
TARTAROS FIS SCA GLOB VALUE C2 CAP 311216	103,41
TARTAROS FIS SCA GLOB VALUE C3 CAP 310317	101,29
TARTAROS FIS SCA GLOB VALUE C4 CAP 300917	108,08
TARTAROS FIS SCA GLOB VALUE C5 CAP 310818	107,27
TARTAROS FIS SCA GLOB VALUE C6 CAP 280219	107,52