1 General Overview

Tuesday, 7 April 2020

"The strongest of all warriors are these two – Time and Patience."
- Leo Tolstoy, War & Peace

Dear Partners:

The Fund is at the moment down -13,1% year to date. Market movements are very erratic for the moment: just a couple of trading days ago we finished the first quarter of 2020 -16,20% in the red, versus -25,65% for the Eurostoxx 50 and versus -20,54% for the MSCI World Index.

The Net Asset Value of the Fund is 187,25 (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)*

2020	*jan*	*feb*	*mar*	*apr*	*may*	*jun*	*jul*	*aug*	*sep*	*oct*	*nov*	*dec*	*ytd*
Fund	-0,82	-5,13	-10,95										-16,20

*Please note that individual investor net returns will vary due to the timing of one's investment. The 2020 results reported above are unaudited estimates and may be subject to change.

With this quote by Scott Adams we started the previous investment letter:

"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."

And "stay in the game" is how we ended that same letter. Well, today we are still in the game. Relatively, we did okay-ish, but in absolute sense it does not feel that way. The bad part is that we are, unsurprisingly, down for the year. The good part is that we have a boatload of cash to invest. The past month has been brutal to say the least and in market liquidation moves the baby always gets thrown out with the bathwater. Commercial funds (from (private) banks), index funds & computers sell first and ask questions later. Computer algorithms and passive investment structures today dominate trading volumes and make for unsettling price moves, so it should be noted that prices today are in many cases completely detached from long-term assessment of value.

There are lots of things – in our portfolio – that were "uncorrelated" to what was happening (supply shock, demand recession) that are down significantly more than the market, as market participants were desperate for liquidity. Over the past month we have seen the most bizarre market moves. One company's share price was first divided by three and then doubled; all in the span of a week and without any company specific news. One company we are following issued a statement that it was more of less business as usual but would suspend the dividend to preserve cash; the company's market price hardly reacted to that specific news. A company we are invested in issued a statement that it expects to perform better than it had expected when it provided its previous outlook at the beginning of February, but also was suspending its dividend "solely out of an abundance of caution"; its stock price to our utter amazement went down

significantly in so far that its market price is now down more year to date than some airline companies who have grounded all their planes (read: zero revenues for at least a couple of months) and will need a government bailout. A cable operator we are invested in announced its first buyback program ever after an initial decline in its share price. After that announcement the company's share price declined even further. Whatever the news it didn't matter. Extremely frustrating to say the least. So, at this moment, we are frustrated, but not worried.

We feel we had a certain clarity of perception and an accuracy of response in the portfolio set-up (more on that in the second part of the investment letter), but obviously we haven't been rewarded by the markets yet. Just another reminder that rhyme nor reason is seldomly present in the financial markets, and especially during paradigm shifts. Case in point: the past quarter has shown unprecedently volatility across all asset classes. For the moment the stock and corporate credit market are one giant pain trade, but eventually the dash for cash selling & re-bound buying will peter out and prices will reflect long term business fundamentals based on normalized valuation levels.

Although we don't like seeing negative numbers, we remind ourselves of what Charlie Munger said during the depths of the GFC:

"This is the third time that Warren and I have seen our holdings of Berkshire go down, top tick to bottom tick, by 50%. I think it's in the nature of long-term shareholding, of the normal vicissitudes in worldly outcomes and markets that the long-term holder has his quoted value of his stock go down by say 50%. In fact you could argue that if you are not willing to react with equanimity to a market price decline of 50% 2-3 times a century, you are not fit to be a common shareholder and you deserve the mediocre result that you are going to get, compared to the people who do have the temperament who can be more philosophical about these market fluctuations."

We always construct our portfolio bottom-up (micro), but we also try to be wary of top-down risks (macro). Although we haven't been rewarded yet, we had positioned our fund almost completely outside of the looming systemic risk in advance. Some examples:

- The ultimate consequence of the past 40 years is that governments, businesses and households have been carrying larger and larger debt loads and smaller cash reserves, confident that policy makers will always be able to quickly erase the consequences created by any shock to the economy. This process of accumulating larger and larger debt in the system after each successive economic downturn is often referred to as the great debt super cycle. We believe that we are now at the end of the great debt super cycle and that increasingly debts of all kinds will be monetized by central banks all over the world: all the central banks of the world will go BOJ. Although, we believe precious metals miners are a good value from a bottom-up point of view, they should also be an appropriate macro-economic hedge. It should be noted that some hedges, like precious metals stocks, can also be very volatile. We have been and are invested in precious metals miners. Although gold is flat-ish in usd year to date and up in all other currencies, precious metals miners are actually down for the year. This situation kind of reminds us of the fall of 2008.

- We have a position in pawn shop operator in the United States and Latin America. Before the crisis hit almost 1 in 4 Americans were already under- or unbanked, and more than 3 out of 5 Mexicans were unbanked. This is a business that grows during recessions and tough economic times (cf. infra: what?! (1)). Price action has not reflected this, but business fundamentals should drive the business and its stock price in the coming years. It should be noted that these companies have essential business status across the vast majority of their markets; i.e. their stores remain open.

	2007	2008	2009	2010	2011
Revenue (usd)	372	457	597	733	853
growth	-	22,9%	30,6%	22,7%	16,3%

- We are invested in an inter-broker dealer. The company is a leading global inter-dealer brokerage and financial technology company servicing the global financial markets. The company specializes in the brokerage of a broad range of products: fixed income (bonds and related interest rate derivatives credit derivatives) as well as financial instruments from foreign exchange, equities, energy and commodities, insurance, and futures markets.

  Just as an individual investor needs a bank or an electronic trading platform to buy and sell securities, broker-dealers require the services of an inter-broker dealer for certain types of trades. This would be for more esoteric instruments that are less liquid due to certain product characteristics, and for which the company can add value by providing price discovery, and, ultimately, match buyers and sellers for a commission. As mentioned above the company stated that it was likely to perform better than it had expected when it provided its previous outlook at the beginning of February, but also was suspending its dividend "solely out of an abundance of caution".

- We are invested in a cable and mobile operator with operations in 18 countries across Latin America and the Caribbean; the company also owns an extensive subsea and terrestrial fiber optic cable network that connects over 40 markets in the region. The cashflow generated by this company is quasi indestructible. Case in point? They have a quasi-monopoly position in Puerto Rico for instance. And 9 months after hurricane Maria hit and completely obliterated the island, the company's Puerto Rican operations were running close to normal again and cashflows were higher than before.
  Moreover, their biggest competitor in the Caribbean region, Digicel, was already cutting back because of a highly indebted balance sheet. And just recently Digicel asked for a grace period on interest payments; it seems their biggest competitor is close to bankruptcy. John Malone aka The King of Cable owns approximately a 5% stake and an approximately 25% voting interest in the cable operator; he built his fortune in the 70s, 80s and 90s by building Telecommunications Inc. (TCI) into the largest cable tv operator in the U.S. John Malone sold TCI to Time Warner in 1999. It should be noted that the company started its first buyback program ever after an initial decline in its share price. After that announcement the company's share price declined even further.

- It should be noted that are only direct exposure we have are our two listed companies in Hong Kong (4% of the Fund) who own office buildings, apartments and hotels in Asia, the UK and the US. Both companies are family-controlled and have fortress balance sheets (debt to equity of less than 5%). Going into this crisis from a position of strength they should actually be able to capitalize on opportunities from this unfolding hospitality crisis.

- And finally, a big cash hoard to take advantage of the investment opportunities that will be forthcoming.

So, it appears as if we are set-up appropriately for the coming economic environment and the government policy changes that are unfolding. What we continue to hold in the portfolio has declined in almost all cases in excess of the market, but we believe there is value embedded within the portfolio, and we are ready to act when investment opportunities arise. It should be noted that now more than ever this is a market of stocks rather than a stock market, but also that the range of outcomes is wider than ever; the fog of war is really dense.

It's tough to write about all of this without dehumanizing this health and (soon to be) economic crisis, but we have to be clinical – pun intended – about this if we want to get through this and, obviously, we will. Did we predict all of this? No. Did we for years write about overvalued companies in an overleveraged (financial and economic) system. Yes. Or do you think all those "What?!" snippets were just there for entertainment value and not as clear markers of an increasingly fragile system?

James Grant, the editor of the eponymous Grant's Interest Rate Observer, put it the following way in the Wall Street Journal of the 1st of April:

"The superabundance of Treasury securities is the spoor of America's trillion-dollar boom-time deficits. Persistently low interest rates have facilitated that borrowing, as they have the growth of private-equity investing (ordinarily with lots of leverage), the rise of profitless startups, the raft of corporate share repurchases, and the unnatural solvency of loss-making companies that have funded themselves in the Fed's most obliging debt markets.
For savers in general, and the managers of public pension funds in particular, lawn-level interest rates confer no similar gains. On the contrary: To earn $50,000 in annual interest at a 5% government bond yield requires $1 million of capital; to earn the same income at a 1% yield demands $5 million of capital. To try to circumvent that forbidding arithmetic, income-famished investors buy stocks, junk bonds, real estate, what have you. It worked as long as the bubble inflated.
In a bubble, performance is the name of the investment game. Over the past 10 years, skeptics of our debt-financed prosperity have had to fall in line. To keep up with the Joneses, fiduciaries have sought an edge in lower-quality assets. Managers of investment-grade bond portfolios dabbled in junk bonds. Junk-bond investors slummed it in lower-rated junk or in the kind of bank debt that is senior in name but structured without the once-standard protective legal fine print."

We never claimed to know what would happen in any given year in the currency or interest rate markets, or what man-made or natural catastrophe would hit certain economies, nor can we predict any other important unknown unknowns. We however always ran the Fund with the notion that we must be prepared to be resilient and durable through any and every kind of environment we face. So, we were and are prepared for sustained uncertainty. Persistence through chaos was and is a guiding principle because life and business is messy, very messy… to be able to persist we always favored a margin of safety and anti-fragile set-up above everything else, because there is a concept that is called path dependency: the long term doesn't matter if you are not going to make it to the long term. Nassim Taleb explains it like this:

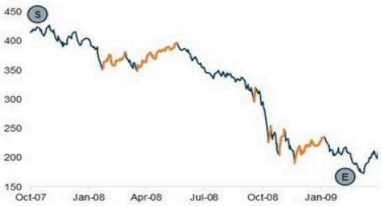
"An absorbing barrier is a point that you reach beyond which you can't continue. You stop. So, as Warren Buffett keeps saying, in order to make money, you must first survive. It's not like an option. It's a condition. So, once you hit that point, you are done. You are finished. And that applies in the financial world to what we call financial ruin."

Some of you have recently re-watched the movie The Big Short; we strongly recommend the book also. What we recall most vividly about the experience of dr. Michael Burry is how you can be wrong / receive negative (market) feedback for a long time before you eventually are proven right. Had the unfolding of the financial crisis (and the reflection of its reality into market prices) taken a couple of months longer, nobody would have heard from dr. Michael Burry, because all of his investors would have redeemed before he was proven right. So again, the long term doesn't matter if you are not going to make it to the long term. We are, in that respect, grateful for your long term trust and support.

Bear market rallies of MSCI AC World below:

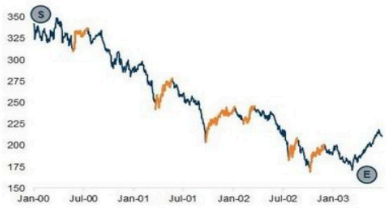
- **S**: Start of the Bear Market
- **E**: End of the Bear Market
- **Orange line**: Bear Market Rally

Exhibit 6 : Global Financial Crisis: 6 bear market rallies
MSCI AC World



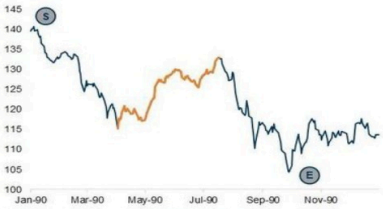
Source: Datastream, Goldman Sachs Global Investment Research

Exhibit 7 : Dot-com bubble: 6 bear market rallies
MSCI AC World



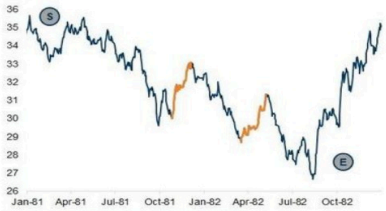
Source: Datastream, Goldman Sachs Global Investment Research

Exhibit 8 : 1990s Recession & Oil shock: 1 bear market rally
MSCI AC World



Source: Datastream, Goldman Sachs Global Investment Research

Exhibit 9 : 1980s Recession & Stagflation: 2 bear market rallies
MSCI AC World



Source: Datastream, Goldman Sachs Global Investment Research

In a bull market everybody is a hero and for the past ten years companies and governments levered up (even more than before the GFC) and "investors" just bought any asset indiscriminately; it didn't matter because it all went up in price anyway. Everybody had (once again) forgotten the lessons of the distant and not so distant past. It was not that they thought that they would be able to put on their seatbelts just before the impact. No people actually believed that seatbelts weren't necessary anymore because recessions and declining asset values were a thing of the past. Leverage was built up on the premise that nothing bad happens and something very bad has now happened. We never wanted to be a hero, but we also never wanted to be a zero. And actually, after the recent re-bound (bear market rally) in the markets, everybody starts to feel like being a hero again. Is this the generational buying opportunity with the S&P at levels seen just a year and a half ago?! People – even my boxing coach – were calling us left and right asking to check if this was a good buying opportunity; something that didn't happen in the 2008-2009 period. We believe this bear market – just like any other bear market – will end only when aspiring investors don't feel like being a hero anymore. We dare to say that at the moment the markets in general are priced for the optimistic case and don't seem to discount for even more bad news.

"Global supply chains are also affected, hurting the ability for the city-state to get its supplies, and in turn hurting its exports...I don't see this problem going away in a couple of months...It will be several years before the virus runs its course."
-Singapore Prime Minister Lee Hsien Loong

The scale of what we are witnessing both in the economy (lock-down) and in the policymakers' response is unprecedented. Nobody knows how this all plays out, but we can say with absolute certainty that there is a material and probably unseen reversal in the global economy. The more you try to divine the consequences of all of this, the worse and worse it gets. And what will be the expected and unexpected second and third order consequences of this global shut-down? E.g. Airbnb recently confirmed that it's suspending all third-party marketing work in an attempt to save some 800 million usd.

The world will be back to normal someday, although it seems likely that a lot of changes will have a lasting impact. What matters most between today and that someday is what we do in the interim; this holds true

for both our health and our finances. So, what to do? We will take our cue from what Buffett did in 1973-1974.

Berkshire Hathaway entered 1973 with a large cash position and began buying stocks into stock market decline. Almost all of his stock purchases fell 50%, including his initial purchases of The Washington Post, as the market continued to decline.

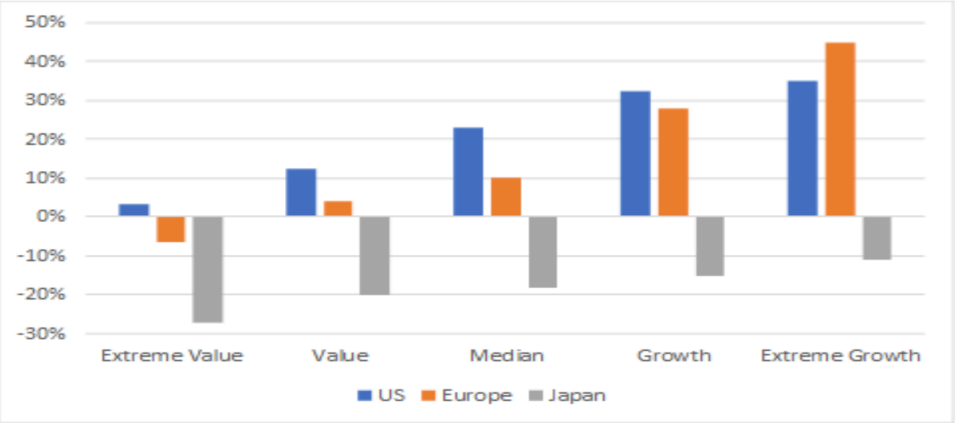
Year	Berkshire Hathaway Share Price	S&P 500 Index	Difference
1972	8,1%	18,9%	-10,8%
1973	-2,5%	-14,8%	12,3%
1974	-48,7%	-26,4%	-22,3%
1975	2,5%	37,2%	-34,7%

It should be noted that Warren Buffett held his stake in The Washington Post Company for 40 (!!!) years. To write that Warren Buffett was simply investing in listed companies that he felt would be earning money in the long term is more than an understatement. He clearly never had a concern over where shares prices would go over the next couple of years.

The easy thing to do would be to go all-in and lock in a relative outperformance versus funds who were and are fully invested, and just take whatever comes. But we are stewards of your and our money and that is just not an option. The prudent choice is the hardest choice and this particular road is hard because there are no easy recipes or answers. The range of outcomes is wider than ever and more unpredictable than ever (cf. Singapore just recently went in lock-down again). Moreover, you can't start from historically high valuations, have an average bear market decline, and assume everything must be on sale. It doesn't seem to work that way or is this time really different?

Verdad Weekly Research published the following data to compare where markets are as of 20 March 2020 relative to 30 June 2009, when valuations were near their lowest in the middle of the default cycle. The graph (cf. infra graph produced by Verdad Weekly Research) shows how expensive global stocks are today relative to the depths of 2009:

Figure 1: March 2020 vs. June 2009 TEV/EBITDA Multiples

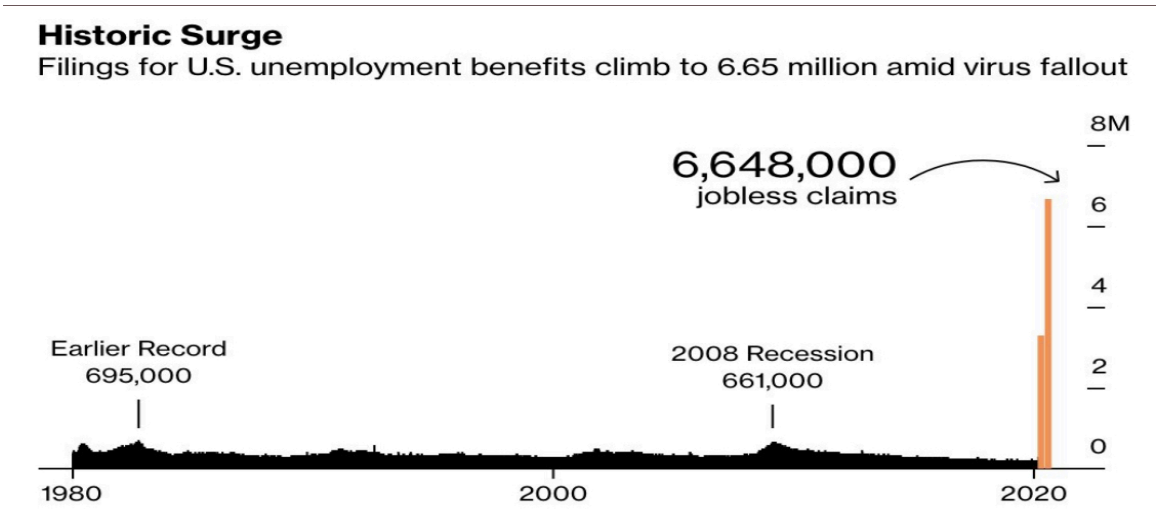


Source: Capital IQ. 10th, 25th, 50th, 75th, and 90th percentile valuation breakpoints shown in each market for extreme value through extreme growth respectively. All listed stocks excluding REITS and financials.

At the moment business information is in most case unknowable and liquidity is very low, so the markets are just trading on most recent "virus" headlines and will continue to do so until fundamentals become observable and analyzable again. Patience and opportunism are the key for making good long term decisions. We have a huge war chest and are thus ready. So, during the ongoing and coming market turbulence, we will very opportunistically invest, laying the groundwork for the next 7 years.

What?! (1)

United States Jobless Claims:

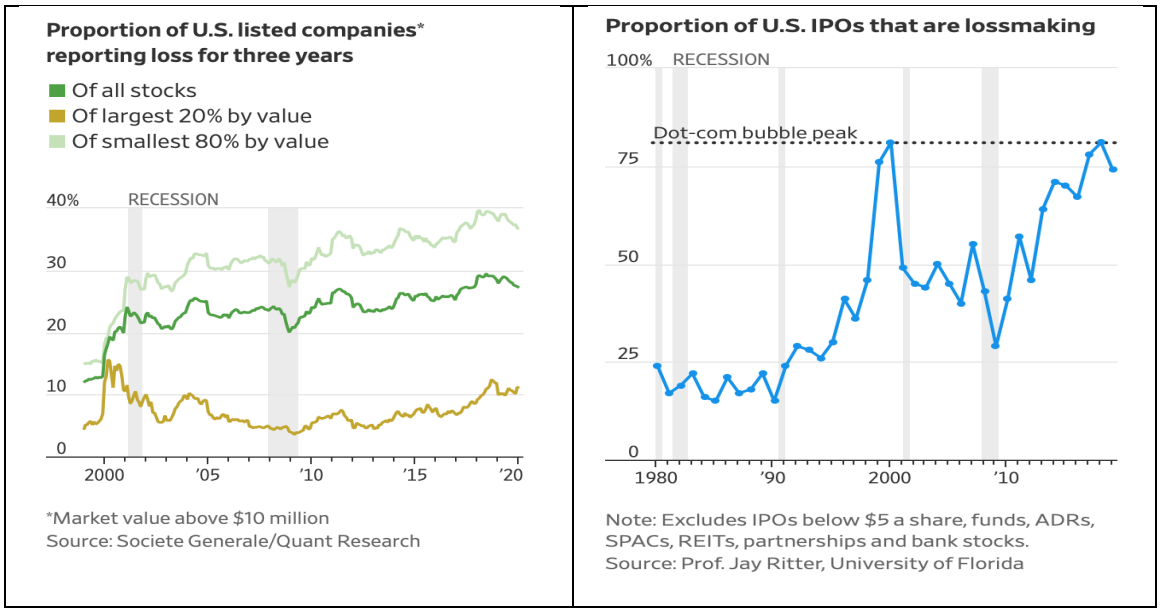


What?! (2)

Source: https://www.wsj.com/articles/lessons-from-japans-lost-decades-11577874601

What?! (3)

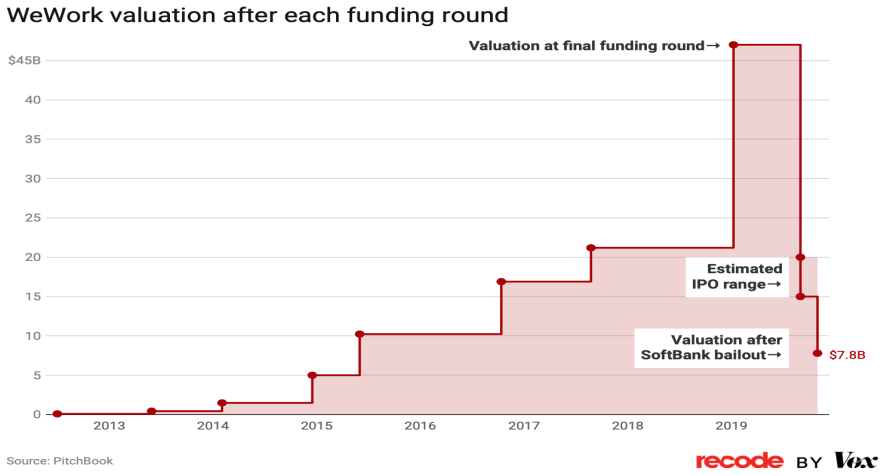
From the Wall Street Journal on the 9th Of January: "Money-Losing Companies Mushroom Even as Stocks Hit New Highs". Well that aged very well and very quickly!



source: https://www.wsj.com/articles/money-losing-companies-mushroom-even-as-stocks-hit-new-highs-11578608209

What?! (4)

WeWork's spectacular rise and fall will stand symbol as the result of a ten-year perfect storm of corporate excess and lacking governance, ponzi-scheme based financials, and make-believe (e.g. community-adjusted ebitda) profits, all facilitated by loose capital. Once valued at 45 billion usd, WeWork's valuation is on its way to zero now.

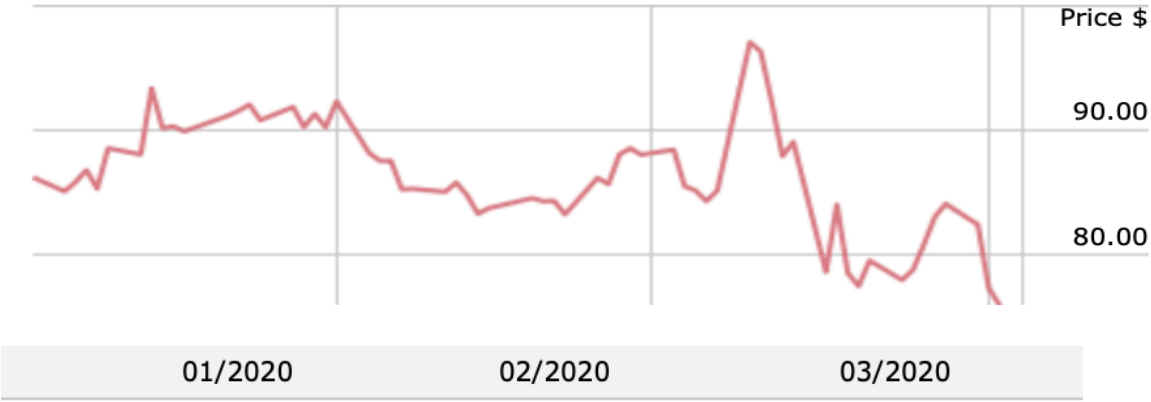


What?! (5)

The price of the Argentinean bond as mentioned in the 2018 Q3 and 2019 Q4 letter to the partners:

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

In the last quarter of 2019 (cf. 2019 Q4 letter to the partners) 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. We expected the corporate bond to be refinanced before the end of the year. At the beginning of March, the company announced that it had entered into a binding commitment with Jefferies Finance and the bond's price jumped to close to 100. During the March pandemic the bond price fell back to around 80 and we increased the Fund's position around those level.



We also made an investment in the convertible bond of a U.S. producer of liquid natural gas (LNG).

More information on this investment and the other the Fund's investments will follow in the next letters to the partners.

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 fact that the only constant is change:

https://adventuresincapitalism.com/2020/01/09/the-only-constant-is-change/

A must read about the fact that reality is not a best-case scenario, it's chaotic and messy:

https://modus.medium.com/resilience-is-the-design-imperative-of-the-21st-century-5df4b146f9e9

A must read about being wrong for the right reasons:

https://mailchi.mp/verdadcap/wrong-for-the-right-reasons?e=d33bf297c5

Administration and the next update

Show me the incentive, and I will show you the outcome.
- Charlie Munger

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

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

We always had a penchant for owner-operator type investments due to our belief that the right incentives are of paramount importance; this owner-operator set-up creates an alignment of interests between management and shareholders. Thus, our partners can be confident that their hard-earned capital is invested alongside ours.

The art of surviving in a bear market is based on courage, patience, and humility. A willingness to look wrong, for a sometimes uncomfortably long time, is what sets the successful investors apart. In the meantime, we will continue to be diligent and patient. Know that we are watching out for your capital.

Stay safe!

The Tartaros Team

2 Fund Overview

2.1 General Overview (end of Q1 2020)

	Asset Class
Equities	40,54%
Preferred Equities	1,25%
Corporate Bonds	5,8%
Cash	52,41%
	100,00%

	Currencies
USD	58,34%
EUR	1,12%
CAD	13,39%
YEN	15,35%
HKD	5,36%
GBP	5,75%
NOK	0,69%
	100,00%

	Industry (as % of Fund)
Materials	14,11%
Industrials	3,09%
Consumer Discretionary	6,76%
Healthcare	2,02%
Financial Services	6,17%
InfoTech	1,52%
Communication Services	5,09%
Utilities	0,67%
Real Estate	2,36%

2.2 Fund Positions

We have no short positions and no leverage. We are invested long in 24 positions.

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

Market Capitalizations in USD	*% of equities invested*
> 5 Billion	4%
1< 5 Billion	25%
0,5 < 1 Billion	8%
< 0,5 Billion	63%

Position	*% of portfolio*
Investment 1	4,41%
Investment 2	3,26%
Investment 3	2,91%
Investment 4	2,77%
Investment 5	2,51%

It should be noted that all numbers are approximations.

2.3 NAV Series

TARTAROS FIS SCA GLOBAL VALUE C1 A CAP	187,25
TARTAROS FIS SCA GLOB VALUE C7 CAP 311219	83,80

2.4 Return Overview

Below are the results of the Tartaros Global Value Fund for 2019; 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)*

2020	*jan*	*feb*	*mar*	*apr*	*may*	*jun*	*jul*	*aug*	*sep*	*oct*	*nov*	*dec*	*ytd*
Fund	-0,82	-5,13	-10,95										-16,20
Msci world	0,60	-7,72	-14,41										-20,54
Eurostoxx 50	-2,87	-8,55	-16,30										-25,65

*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 2020 results reported above are unaudited estimates and may be subject to change.