# 1 General Overview

Tuesday, 7 July 2020

*Adamantine: an unbreakable metal from the mythical past. According to Virgil, the gates to Tartaros are made of the stuff. Milton says that the devil himself is bound up in adamantine chains.*
*– John Kaag, American Philosophy: A Love Story*

Dear Partners:

The Fund finished the second quarter of 2020 +14,52% in the plus, versus +16,04% for the Eurostoxx 50 and versus +17,43% for the MSCI World Index. We are down year -4,04% for the year.

The Net Asset Value of the Fund is 214,44 (cf. part 2 for a more detailed Fund overview, for detailed return results and the NAVs of all series).

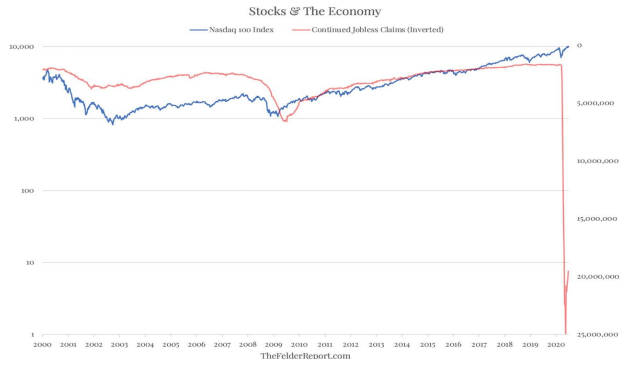
Returns % (in € - net of all fees)*

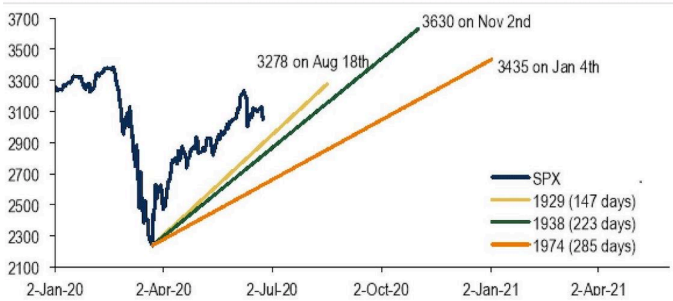
| *2020* | *jan* | *feb* | *mar* | *apr* | *may* | *jun* | *jul* | *aug* | *sep* | *oct* | *nov* | *dec* | *ytd* |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| *Fund* | -0,82 | -5,13 | -10,95 | 8,44 | 2,92 | 2,61 | | | | | | | -4,04 |

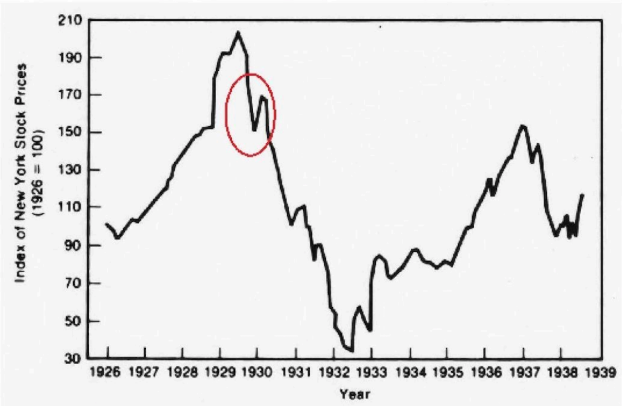
*Please note that individual investor net returns will vary due to the timing of one's investment. The 2019 results reported above are unaudited estimates and may be subject to change.

*Irrational exuberance is the psychological basis of a speculative bubble. I define a speculative bubble as a situation in which news of price increases spurs investor enthusiasm, which spreads by psychological contagion from person to person, in the process amplifying stories that might justify the price increases, and bringing in a larger and larger class of investors who, despite doubts about the real value of an investment, are drawn to it partly by envy of others' successes and partly through a gamblers' excitement.*
*– Robert Shiller, Irrational Exuberance*

What is going on here? It took 7 years to get back to the high of 2000 and it took only 5 and half years to regain the 2007 highs. And today, we reach new stock market highs and corresponding high valuation levels in only 3 months, amidst a global supply and demand shock unlike ever before…






Source: Bloomberg; As of 29/6/20

We've just experienced the most aggressive bear market rally in history, as this first chart from Goldman Sachs makes clear. The previous record was held by the rally in 1929. The second chart shows what happened after that bear market rally (which we've circled in red). In short – ouch. #bearmarket #caution #stocks

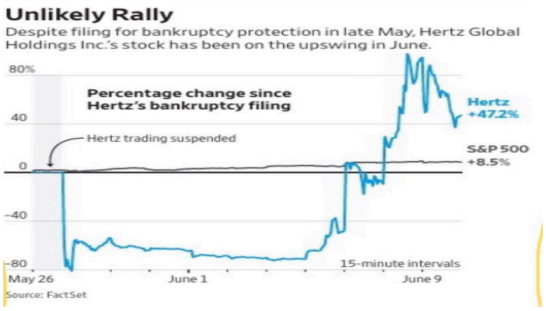
Source: Man Group plc (Steven Desmyter)

Jeremy Grantham, founder of the asset management firm GMO, summed it up as follows: "The market and the economy have never been more disconnected. And while the current P/E on the U.S. market is in the top 10% of its history, the U.S. economy in contrast is in its worst 10%, perhaps even the worst 1%. This is apparently one of the most impressive mismatches in (financial) history."

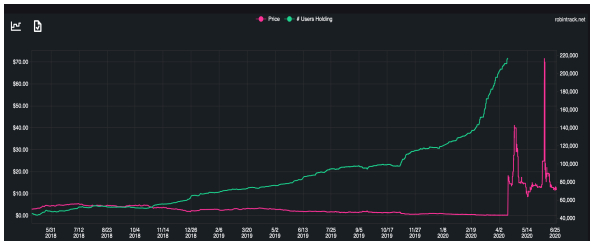
And in this economic set-up retail "investors" are flooding the market with unquestionable exuberance, believing there is no downside risk anymore. This frenzy is actually epitomized by the marketing genius Dave Portnoy (cf. https://en.wikipedia.org/wiki/David_Portnoy).


Some examples of the frenzy:

- The car rental company Hertz filed for bankruptcy on the 22nd of May. The stock price initially dropped dramatically on the news, but then it went on a phenomenal 10x price increase in less than two weeks. To add injury to insult, Hertz then tried to capitalize on the rally by selling up to 1 billion usd in shares, despite a bankruptcy that threatens to wipe them out; the SEC stopped that plan.



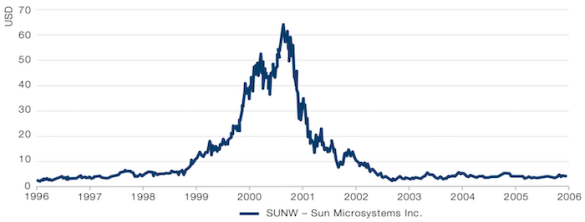

- A company that was in a similar situation is Chesapeake Energy Corp. At its peak, the company was the second largest natural gas producer of the United States. However, what was more surprising is that the stock price jumped 400% two days prior to the news that it was considering bankruptcy. And then on the 28th of June, the company actually filed for bankruptcy, wiping out 7 billion usd in debt and any existing equity value. Accoring to RobinTrack, some 216.915 Robinhood traders held on to the stock as of April 14, and that number had certainly surged in recent days after the stock soared as high as 84,75 usd on the 8th of June during the peak of the retail trading mania. (source: www.zerohedge.com)



- Nikola Corporation, the Electric truck company with ZERO revenue hit a 34 billion usd valuation just a couple of weeks ago. Another example of crazy trading in stocks, regardless of underlying company fundamentals, is Genius Brands. Its stock price went from 0,30 usd to nearly 12 usd in about a month thanks to some over-the-top press releases. The share price of the Chinese real-estate company Fangdd Network jumped nearly 400% on no news. Day traders probably mistakenly believed investments in the company were bets on the performance of the FAANG stocks, i.e. Facebook, Amazon, Apple, Netflix and Google. There are countless other examples of crazy market price valuations and gyrations.

- Shopify, the new e-commerce superstar, has been on a tear over the past year and now trades at more than 60 times revenues. Let that please sink in. Even if Shopify – just like a lot of tech companies back in the dot-com bubble, Shopify has yet to post an annual profit – had a net income margin of an incredible 20%, the company would still be trading at a P/E of close to 300. This reminds us of Sun Microsystems during the dot-com bubble. At its peak the company hit a market valuation of 10 times revenues. A couple of years afterwards, Scott McNeely, the CEO of Sun Microsystems, had this to say about that time:

"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



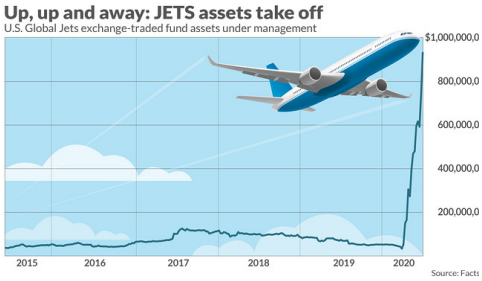
is really hard with 39,000 employees. That assumes I pay no taxes, which is very hard. And that assumes you pay no taxes on your dividends, which is kind of illegal. And that assumes with zero R&D for the next 10 years, I can maintain the current revenue run rate. Now, having done that, would any of 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?"

Stocks that have matched or made a new 52-Week High during the current trading session.

| Symbol | Name | Market Cap, $K | Price/Sales |
|---|---|---|---|
| BLU | Bellus Health | 621,444 | 23,135.16 |
| ATHE | Alterity Thera | 17,303 | 111.92 |
| LMNL | Liminal Biosci | 252,936 | 70.08 |
| SHOP | Shopify Inc | 111,307,928 | 68.54 |
| COUP | Coupa Software | 18,582,178 | 46.98 |
| EMX | Emx Royalty Gr | 180,952 | 45.92 |
| OKTA | Okta Inc Cl A | 24,950,460 | 42.49 |
| RARE | Ultragenyx Pha | 4,666,057 | 42.37 |
| BLDP | Ballard Power | 3,754,120 | 35.61 |
| GSHD | Goosehead Insu | 2,729,435 | 34.08 |
| CYRX | Cryoport Inc | 1,152,555 | 32.47 |
| TWST | Twist Bioscien | 1,856,349 | 31.65 |
| AGIO | Agios Pharmace | 3,684,183 | 30.98 |
| SLP | Simulations Pl | 1,062,881 | 30.60 |
| MICT | Micronet Enert | 16,329 | 30.27 |
| TTD | Trade Desk Inc | 18,722,168 | 28.30 |
| AVLR | Avalara Inc | 10,437,182 | 27.39 |
| TWLO | Twilio | 30,730,210 | 26.05 |
| AYX | Alteryx Inc | 10,835,907 | 25.33 |
| NOW | Servicenow Inc | 77,244,944 | 21.74 |
| FIVN | Five9 Inc | 6,864,749 | 20.37 |
| WING | Wingstop Inc | 4,111,150 | 20.22 |
| HALO | Halozyme Thera | 3,641,200 | 17.89 |
| PLMR | Palomar Holdin | 2,080,108 | 17.55 |
| WIX | Wix.com Ltd | 12,775,896 | 16.36 |

Source: MOI Global (1 July 2020)

- Since Warren Buffett sold his investment position in the airlines, the airline stocks have surged massively. Over the past 2 months, "investors" have plowed so much money into the exchange-traded fund JETS, even as air travelled sunk 90%, that the ETF has recently become one of only a handful of ETFs to reach 1 billion usd in assets under management.

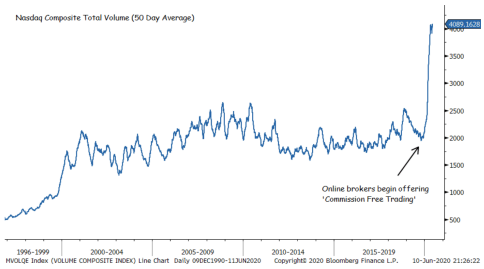


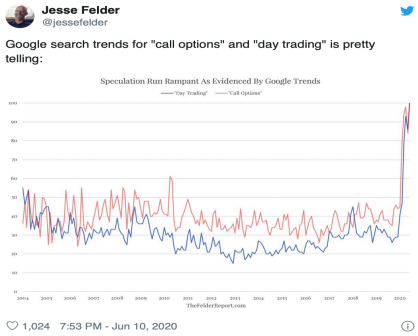


Source: www.marketwatch.com

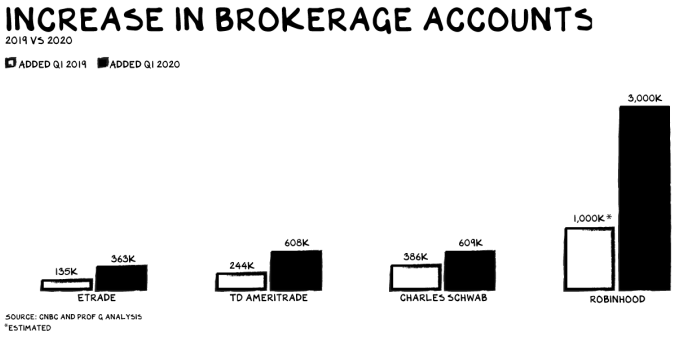
- The major U.S. online brokers Charles Schwab, TD Ameritrade (part of Charles Schawb), Etrade, and Robinhood recently reported that new accounts grew more than 170 percent this year. All the online brokerages claim that their new account holders are on average younger of age. Robinhood alone, whose average client's age is 31, added 3 million new accounts in 2020. Similar trends are seen in other countries: e.g. https://www.wsj.com/articles/cub-investors-taking-cues-from-youtube-gurus-help-hoist-korean-stocks-11593768620 .

Trading securities has never been easier, with fancy smartphone brokerage apps that having a gaming-like feel to it and are just a download away. On top of that, a price war between the online brokerages drove commission charges to zero at the end of last year.



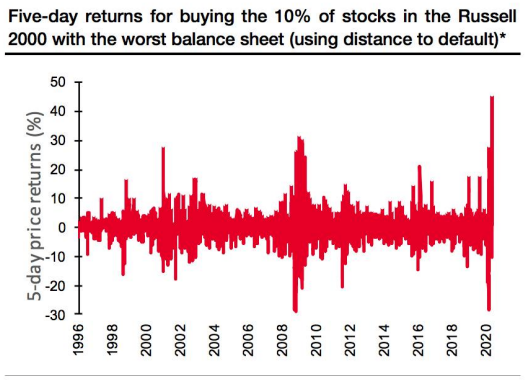

Some of the online trading frenzy appears to be from people who would otherwise be gambling or betting on sports (cf. supra David Portnoy & Davey Day Traders). But does the herd of retail traders explain some of the stock market's rally?

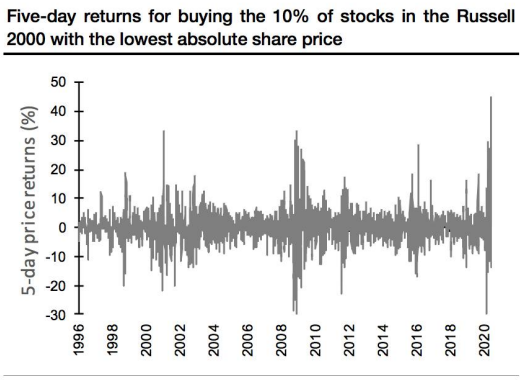



Source: https://www.profgalloway.com/iaddiction

This is how Andrew Lapthorne and his team sum it (source: https://ftalphaville.ft.com):

"But back to the topic in hand, speculative stock trading. Below we track the absolute returns on two factors, 'low share price' and 'worst balance sheet risk' (as defined by Merton's Distance to Default). In each case we take the bottom decile of the Russell 2000 and measure its performance over a five-day period. Yes, these "trash rallies" are common during bear markets, but the ferocity of the moves this time around have been off the scale.



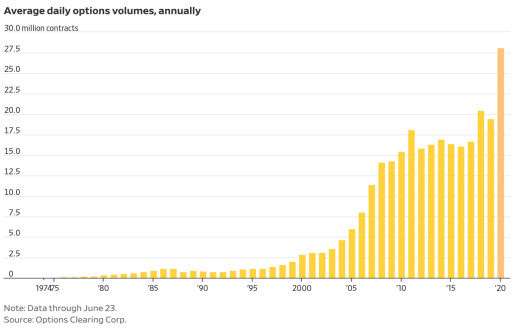

(*) as of the close on June 12 2020
Source: SG Cross Asset Research/Equity Quant, Factset

Just look at that skew in the results! At no other point in almost a quarter of a century have the worst stocks — in terms of price or balance sheet strength — seen volatility like this.

But is this a Robinhood thing? Well yes, and no. As it turns out, the wannabe Davey Day Traders paradoxically want to buy either the trashiest companies or the highest quality ones. Here's Soc Gen:

In terms of overall economic value, Robinhood investors appear to be buying both high quality and lower quality stocks. For as we show below, the US dollar amount flowing into stocks with both the strongest and the weakest balance sheets is similar. But in proportion to the size of the overall universe — as a percentage of the market capitalisation — the lower quality stock holdings data clearly stands out, though we must add that Robinhood investors' total holdings are relatively tiny."

- /r/wallstreetbets, is an internet community where members discuss stock and option trading strategies. It is known for its touting of very aggressive/speculative trading strategies. Members of this community often not only ignore risk management, but also brag and boast about it. WallStreetBets (WSB) has morphed into a subculture of retail traders whose levels of trading expertise seems to range from professional to mostly amateur level, and whose leveraged trades (via a.o. options) sometimes result in YOLO gains or losses. It is a sort of Jackass (https://en.wikipedia.org/wiki/Jackass_(franchise)) for the stock market. One glaring example is the infamous "Infinite Leverage" incident on the RobinHood trading app where a number of WSB members used a glitch on the app to leverage small deposits into massive margin positions. One Robinhood user allegedly turned a 3.000 usd deposit into 1,7 million usd stake.



Is Warren Buffet losing his touch once again? Just like in 1999? ;-)

BARRON'S

What's Wrong, Warren?

Berkshire's down for the year, but don't count it out

By By Andrew Bary • Updated Dec. 27, 1999 12:01 a.m. ET

A fter more than 30 years of unrivaled investment success, Warren Buffett may be losing his magic touch.

Source: https://www.barrons.com/articles/SB945992010127068546

Warren Buffett + Add to myFT

**Light on tech, heavy on banks – has Warren Buffett lost his touch?**

Too big. Too slow. Too old-fashioned. Criticism mounts after Berkshire Hathaway's bad run

Eric Platt in New York JUNE 16 2020 316

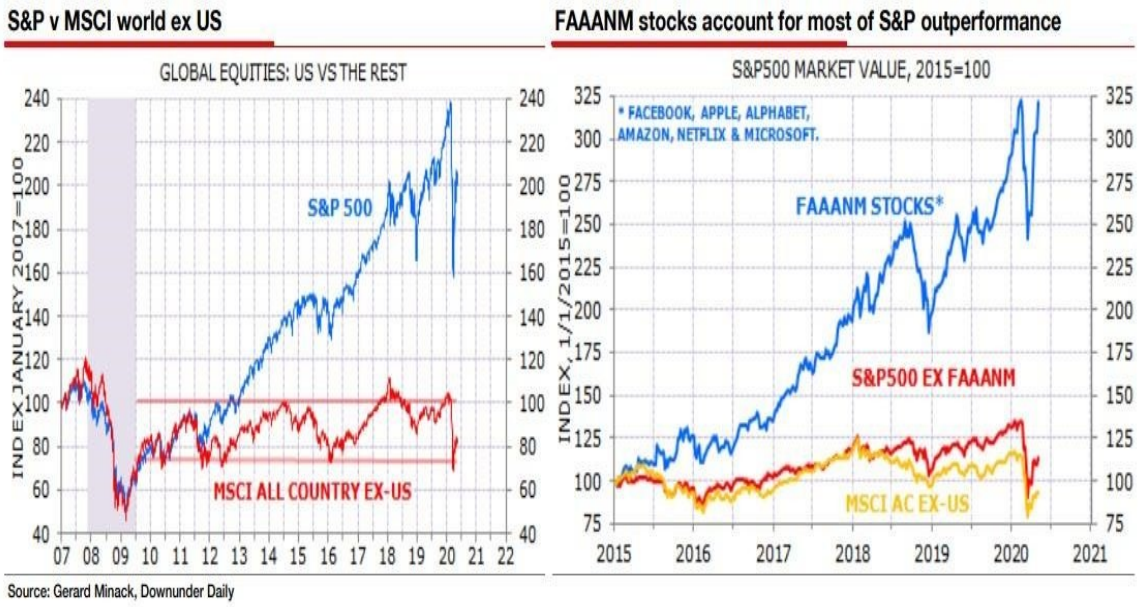
When the Financial Times interviewed Warren Buffett last year, he predicted that future returns from his company Berkshire Hathaway and from the US stock market as a whole would be "very close to the same".

Berkshire shareholders could be forgiven for thinking: if only.

The famed stockpicker had his worst performance versus the S&P 500 in a decade in 2019, and 2020 is shaping up to be nearly as bad. Instead of taking advantage of the coronavirus crisis that hit markets in March, Mr Buffett was a casualty. Instead of highlighting Berkshire's balance sheet strength, the crisis exacerbated longstanding concerns over the company's direction. Some

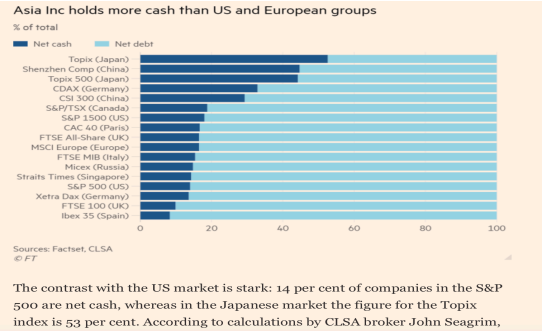
What is going on here? Nobody knows for sure, but all of this is typical of the exuberance seen at the peak of a bull market, never during a bear market. All of this feels like 1999 on steroids. With one very important difference. During the dotcom bubble there was also economic exuberance, but today we have an onslaught of negative economic news and massive economic uncertainty. We can only agree with legendary Jeremy Grantham who calls this he most "crazy" market he's seen in his career.

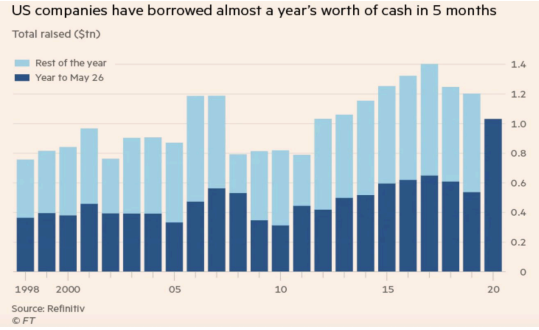
**What?! (1)**




Source: Gerard Minack, Downunder Daily

**What?! (2)**

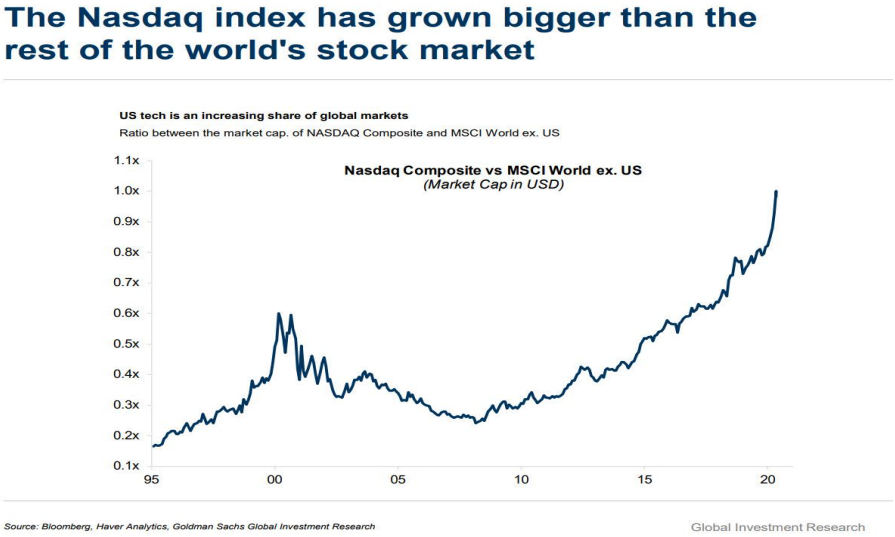



"The contrast with the US market is stark: 14 per cent of companies in the S&P 500 are net cash, whereas in the Japanese market the figure for the Topix index is 53 per cent. According to calculations by CLSA broker John Seagrim, the 434 non-financial companies in the S&P 500 have a combined market capitalisation of 18.8tn usd but just 880bn usd of tangible book value — net assets minus intangible assets and goodwill. In the Topix 500, 451 non-financial companies with a combined market capitalisation of 3.6tn usd are sitting on 2.6tn usd of tangible assets. For the past five years, since the government of Shinzo Abe announced major corporate governance and stewardship reforms, the central narrative of Japanese investment has been that the old resistances, many of them hardened by the financial shock of the 2008 Lehman Brothers collapse, were faltering. The theory was that a Tokyo gold mine — a market where more than half of all listed companies trade below their book value — was about to be unlocked. But the swift and unforgiving economic impact of coronavirus, with its punishment of highly leveraged companies everywhere — including, prominently, SoftBank — has given Japan's cash- and asset-hoarding companies a powerful new justification."

Source: https://www.ft.com/content/247469ca-25b7-4bd8-8ac3-becf5530f15b

**What?! (3)**



**What?! (4)**

*StarCapital Research*

***Relative overvaluation Growth vs. Value exceeds New Economy levels!***

*MSCI World Growth premium since 1974 in uncharted waters*


This chart shows the overvaluation of the MSCI World Growth Index compared to the MSCI World Value index since 1974. The overvaluation is measured by a composite factor of PE, PC, PB and Dividend Yield. Source: StarCapital, Thomson Reuters Datastream and MSCI as of 30/04/2020.

7

BB StarCapital

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

(1) In the first quarter of this year we invested in Gan plc. Gan operates a software platform that provides an integrated, back-end online gaming system for casinos and sportsbook operators. The company earns a licensing fee on delivery but more importantly a revenue share of subsequent betting business on its platform. We sold our investment – 6,3% of the Fund – in Gan at end of May / beginning of June for a +187% return.

(2) During the second quarter of this year, we made an investment in Shinoken; currently the Fund's largest investment. Shinoken (30% owned by management) is a project developer of apartments and condominiums in Japan. But more importantly, the company offers a wide range of property-management related services: e.g. finding tenants, collecting rent, providing rent guarantee, electricity and gas, etc. This creates a growing and recurring revenue stream (30% of current operating profits) with high-profit margins and high returns on capital. Moreover, occupancy rates are very high and the revenue from property management services was (is) very unlikely to be impacted by the covid-19 crisis.


The current net value of the properties (at cost; not at sales price) of 33 billion yen represents approximately 115% of our cost price. The recurring, high-margin management services earnings stream at a conservative 12x net profit is worth an additional 120% of our cost basis. This means we value the general contractor (85% external projects) and the development business at zero. Shinoken has a zero net debt balance sheet and based on management's forecast for this year – reaffirmed in the press release of the company's first quarter earnings – Shinoken is trading at 4-5 this year's earnings.

(3) We also invested in Cheniere Energy 4,25% 2045 Convertible Notes, at a price of about 69, yielding approximately 6,15% in a 0% world.

The bond was issued years ago at a discounted price of 80. Since March 2020, the bond can be called by the company at is current and accreted value of 83, which is 20% higher than our purchase price. That figure is scheduled to increase in small increments every six months until it reaches 100 in the year 2045. If the company does not call the bonds, and if all they do is mature at 100 in 25 years, the annualized appreciation would be 1.2% on top of the coupon yielding approximately 6%.

Cheniere Energy was originally an energy exploration company. Around 1999, the company abandoned its drilling strategy in favor of building liquefied natural gas (LNG) terminals on the U.S. Gulf Coast.

Given the immense capital requirements of the LNG export facilities, Cheniere financed construction mostly with debt. However, the debt obligations can be predictably managed through the structure of the revenue stream.

The company's shipments are based on contracts that generally extend 20 years. The contracts include a fixed annual fee in addition to a variable rate that is based on the natural gas spot price. Hence there is a highly predictable, element to the company's forward earnings and cash flow. The fixed fees are essentially non-refundable payments to the company independent of the volume shipped. The variable payments, of course, depend on the quantity of LNG shipped to each customer, and are structured such that Cheniere

collects a price equal to 115% of the Henry Hub price – meaning, it should never be forced to deliver LNG below market prices.
From the first quarter earnings call:

"… First, regarding our contract sanctity, I remind you that our long-term contracts do not include provisions for renegotiations. We intend to meet all of our contractual obligations, and in return, we expect our customers to do the same…

But as you all know, one of the primary flexibilities granted to our long-term customers within their contracts is their right to cancel or suspend cargoes with appropriate notice. In instances where that occur, the fixed liquefaction fee is still paid to us and our marketing is selling as the option to market the volume into the global marketplace…

Similarly regarding speculation and confusion around force majeure or FM, which we addressed in our prior call as well, FM clauses in our FOB contracts specifically exclude such events as the unavailability of or any event affecting downstream LNG facilities, changes in the customer's market factors or other commercial, financial or economic conditions. As such, depressed gas prices globally or economic fallout or decrease gas demand from COVID-19 do not provide a valid legal basis on which a counterpart can claim FM…

While skeptics may question this at time, we find ourselves in this historic volatility and uncertainty in both of these markets and the resilience of our business model is on full display…

Despite both supply and demand driven near-term weakness in the LNG market, I am pleased today to reconfirm our 2020 full year guidance ranges of $3.8 to $4.1 billion in consolidated adjusted EBITDA and $1.0 billion to $1.3 billion of distributable cash flow."

(4) Next to our investment in the Cheniere Energy convertible bond, we invested in 3 other corporate bonds (personal care & travel sector); All 3 corporate bonds mature before the end of next year.

**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 Modern Monetary Theory (MMT) going mainstream:

https://adventuresincapitalism.com/2020/06/14/mmt-going-mainstream/

A must read about the Eurodollar market:

https://www.zerohedge.com/markets/down-rabbit-hole-eurodollar-market-matrix-behind-it-all

A must read about so-called broken asset classes:

https://www.researchaffiliates.com/en_us/publications/articles/810-a-quick-survey-of-broken-asset-classes.html

A must read about nobody knowing what is going to happen next:

https://www.collaborativefund.com/blog/when-you-have-no-idea-what-happens-next/

A must read about asset allocation during a prolonged period of very low interest rates (Japan has dealt with these conditions for over 20 years):

https://mailchi.mp/verdadcap/asset-allocation-beyond-the-zero-bound?e=d33bf297c5

**Administration and the next update**

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

Please email or call us with any questions you have.

The Tartaros Team

# 2 Fund Overview

## *2.1 General Overview (end of Q2 2020)*

| | Asset Class |
|---|---|
| | |
| Equities | 46,69% |
| Preferred Equities | 1,27% |
| Corporate Bonds | 6,91% |
| Cash (Equivalents) | 45,13% |
| | 100,00% |

| | Currencies |
|---|---|
| | |
| USD | 59,11% |
| EUR | 1,36% |
| CAD | 16,91% |
| YEN | 13,14% |
| HKD | 4,97% |
| NZD | 3,87% |
| NOK | 0,64% |
| | 100,00% |

| | Industry (as % of Fund) |
|---|---|
| | |
| Materials | 14,17% |
| Industrials | 1,56% |
| Consumer Discretionary | 3,40% |
| HealthCare | 6,07% |
| Financial Services | 6,81% |
| InfoTech | 1,21% |
| Communication Services | 5,02% |
| Utilities | 0,71% |
| Real Estate | 7,74% |

## *2.2 Fund Positions*

We have no short positions and no leverage. We are invested long in 23 positions.

| *Position* | *% of portfolio* |
|---|---|
| Investment 1 | 7,74% |
| Investment 2 | 4,14% |
| Investment 3 | 3,76% |
| Investment 4 | 3,00% |
| Investment 5 | 2,89% |

It should be noted that all numbers are approximations.

## *2.3 NAV Series*

| | |
|---|---|
| TARTAROS FIS SCA GLOBAL VALUE C1 A CAP | 214,44 |
| TARTAROS FIS SCA GLOB VALUE C7 CAP 311219 | 95,96 |
| TARTAROS FIS SCA GLOB VALUE C8 CAP 310320 | 112,52 |
| TARTAROS FIS SCA GLOB VALUE E1 CAP 300420 | 104,92 |

## *2.4 Return Overview*

Below are the results of the Tartaros Global Value Fund for 2020; 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 | 8,44 | 2,92 | 2,61 | | | | | | | -4,04 |
| *Msci world* | 0,60 | -7,17 | -14,41 | 12,38 | 3,01 | 1,45 | | | | | | | -6,69 |
| *Eurostoxx 50* | -2,87 | -8,55 | -16,30 | 5,06 | 4,18 | 6,03 | | | | | | | -13,72 |

*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.