1 General Overview

Friday, 8 January 2021

That the rate of interest will be lower when commerce languishes and when there is little demand for money, than when the energies of commerce are in full play and there is an active demand for money, is indisputable; but it is equally beyond doubt, that every speculative mania which has run its course of folly and disaster in this country has derived its original impulse from cheap money.
– The Economist, 1858 (h/t Jamie Catherwood)

Dear Partners:

The Fund finished the last quarter of 2020 6,30% in the plus, versus +11,83% for the Eurostoxx 50 and versus +11,5% for the MSCI World Index. Just like the last two weeks of 2020 were not kind to the United Kingdom, so where the last two weeks not to the Fund. A 2,5% positive year-to-date return turned into a slight negative return for the year in just two weeks, with some of our investments in our more concentrated portfolio declining strongly on no news. So, we finished -0,75% in the min for the year. The heavy non-euro positioning was a very strong headwind (costing the Fund more than 8% this year), and this was the 11th year that value investing proved to be an uphill battle; we urge everyone to read the articles from GMO and LT3000 linked below. It should be noted that at the moment the small 2020 loss is already more than erased.

The Net Asset Value of the Fund is 221,78 (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	-3,60	0,08	0,84	1,25	4,89	0,09	-075

*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.

Every year in December market prognosticators come crawling out of the wood work and every year their collective forecasts are useless. But just as fear sells in the media, so do forecasts, because people crave certainty in an uncertain world. Unfortunately, the unprecedented comes along all the time, and it has especially this year. And even if you had predicted a pandemic and a recession, would you have predicted the (U.S) markets' ascent / multiple expansion?

So once again, prognosticators did a horrible job: from the pandemic to the election, and from the economy to the financial markets… So, no (macro) predictions from us… but let us just summarize the current macro context:

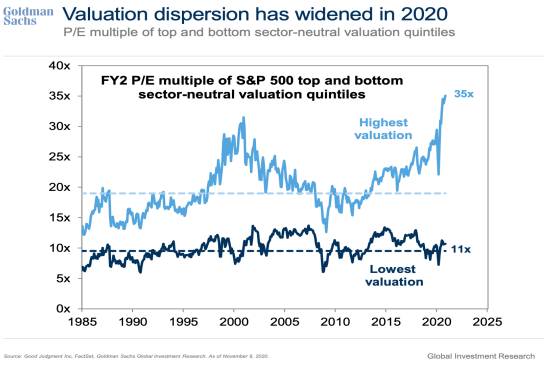
- Government bond yields are at all-time lows. Even the short-term government bond yields of Greece went negative.
- The same holds true for corporate bond yields and mortgage rates: both at all all-time lows.
- Stocks markets (and market valuations) are at all-time highs.
- House prices are at all-time highs.

- And the central banks continue to repeat the same mantra: the economic outlook is "extraordinarily uncertain", so we need many more years of zero interest rates and QE to stimulate the markets…

There is always a disposition in people's minds to think the existing conditions will be permanent. When the market is down and dull, it is hard to make people believe that this is the prelude to a period of activity and advance. When prices are up and the country is prosperous, investors are even more loath to believe that the years of plenty will end.

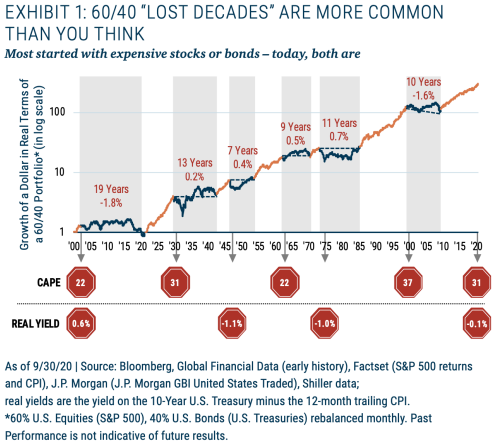
– Bull!: A History of the Boom and Bust, 1982-2004, Maggie Mahar

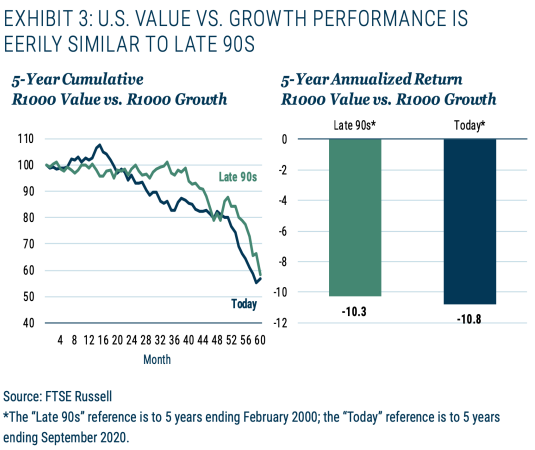
You can suppress risk for a – very long – time, but it cannot be destroyed… Is this 1999? Or is this something completely different and will the party never stop? There is a clearly a lot of speculative excess out there, but value investing has been facing a severe headwind for 11 years now – to the point where nobody wants to be called a value investor anymore – so there is value to be found still (also similar to 1999?).



So, what is the end game? We wonder… We do know that it is never about prediction, but always about positioning… not for the best returns in any given year, but to position yourself to sustain returns for the longest period of time. Morgan Housel put it best when he stated that to maximize (generational) wealth you need endurance – not to be the best in any given year, but to be the last man standing.

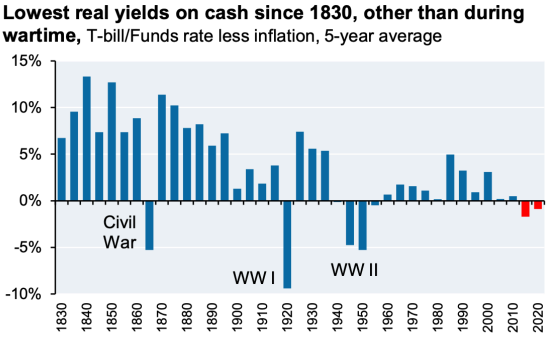
What?! (2)

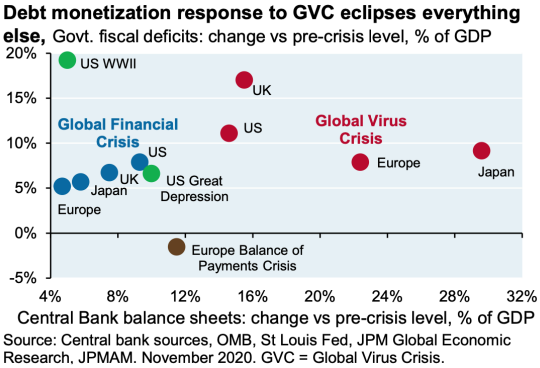




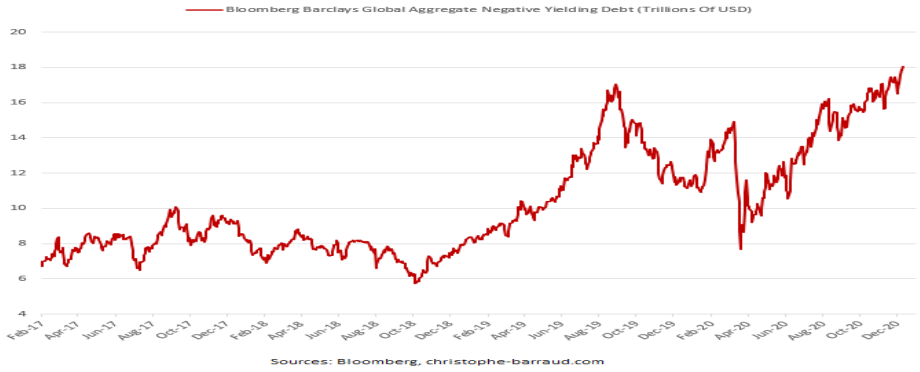
Source: https://tartaros.lu/uploads/cgblog/id112/Tonight_We_Leave_the_Party_Like_Its_1999_-_Oct2020.pdf (a must read!)

What?! (3)





"The pool of negative-yielding debt across the world exceeded 18 trillion usd for the first time in history, according to Bloomberg data. The move came after the ECB announced it will expand its massive monetary stimulus program by another 500 billion euro and will extend emergency bond purchases for nine months."



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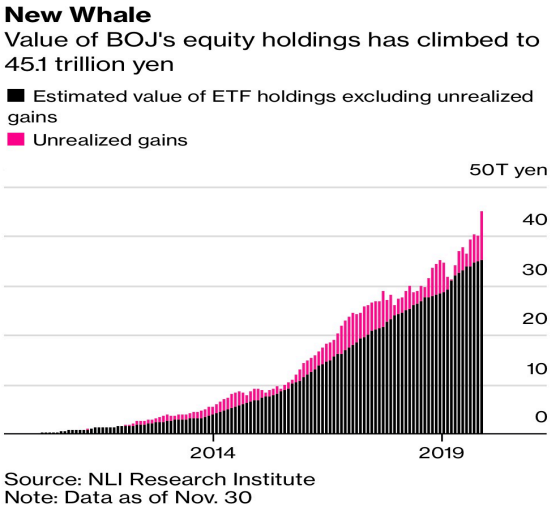
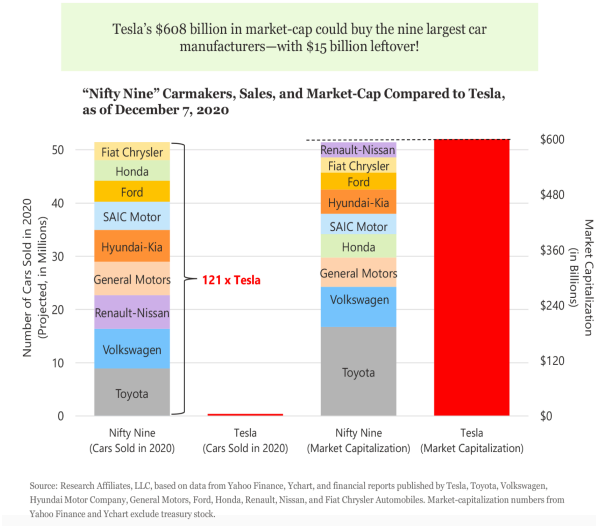


"That marks the first time that the central bank's holdings have eclipsed those of the Government Pension Investment Fund, which Ide estimates stood at 44.8 trillion yen last month, based on gains on top of its holdings as of end-September.

Regardless of which whale is larger, the dominant presence of these two public entities has raised concerns over their influence on market prices. The combination of "a state-run institution, the BOJ, and the country's representative public pension fund, the GPIF, buying up local equities feels distorted," said Satoshi Okumoto, chief executive officer at Fukoku Capital Management Inc."

Source: https://www.bloomberg.com/news/articles/2020-12-06/boj-becomes-biggest-japan-stock-owner-with-434-billion-hoard?utm_source=url_link

What?! (5)



- "Tesla is entering the S&P 500 with a stupendously high valuation and will likely be ranked sixth in the index. Traditional cap-weighted indices, such as the S&P 500, are structured to buy high and sell low—and Tesla is a prime example of this maxim."
- "The eightfold increase in Tesla's share price since its March low meets our two-part definition of a bubble: 1) implausible assumptions are needed to justify its valuation, and 2) buyer interest is based on a great narrative rather than being supported by a conventional valuation model."

Source: https://www.researchaffiliates.com/en_us/publications/articles/819-tesla-the-largest-cap-stock-ever.html

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

(1) We sold our position (approx. 1 % of the Fund) in the Tui Oct 2021 corporate bond, bought in June of this year, for an 11% return. Our position (approx. 4% of the Fund) in the Revlon Feb 2021 corporate bond was sold for a 5,5% return (including a 5% points usd fx loss). Our investment (approx. 1 % of the Fund) in the usd denominated Air Canada bond will be redeemed by the company in April. We still hold our position in the Cheniere 2045 convertible bonds (2,70% of the Fund).

(2) During the second quarter of this year, we invested in several good companies/bad companies set-ups. We are still trying to build a bigger position in two of them.

While trying to make a sizeable investment in the Japanese Sun Corporation, the stock ran away from us. Sun Corporation (2,60% of the Fund) consists of two companies: one is a declining pachinko gaming business with stagnant / declining revenues, and the other one is an overlooked Israeli cybersecurity business (Cellebrite) with sales and earnings that have been compounding at 20% and 40% respectively.

In April of 2020 an activist investor base replaced the company's board and executives with a shareholders-friendly team. We assume that the new board and executive management team will look at all options (closing /selling of pachinko gaming business and/or listing of the cybersecurity business) to maximize shareholder value.

The investment thesis is that Sun Corporation with a net cash position of 145 million usd (vs a market capitalization of approximately 450 million usd) is "clearly" undervalued. Even assigning an unlikely value of zero to the rest of the business, Cellebrite alone could be worth a multiple of Sun's market cap at our investment cost, based on the fact that cybersecurity companies in the United states trade at 5x and more of EV/sales.

(3) We invested in Five Star Senior Living (FVE) at the beginning of 2020. FVE (2,84% of the Fund) is one of the largest senior living operators in the US. The company owns, leases and manages approximately 30.000 senior living units across 31 states:

- approx. 23.500 independent living and assisted living units
- approx. 3.500 specialized assisted living facilities for those requiring memory care
- approx. 3.000 continued care retirement and stand-alone skilled nursing units

  and

- ageility, a divsion that provides rehabilitation and wellness services to approximately 10.000 older adult clients in 249 clinics across 28 states. The number of clinics – with an average investment in new clinic startups ranges between 20 - 30 thousand usd over the past three quarters – opened has a 5-year CAGR of 18%.

FVE oversees front and back office as well as facility upgrades and upkeep within the communities that they own or lease (leases are structured as triple net leases).

In 2019 there was a financial and business restructuring that transformed FVE from a company that was asset heavy, burning cash and burdened with almost 1 billion usd of capitalized operating losses into an asset light management company with a net cash (and investments) balance sheet.

After running up more than 50% from the Fund's cost base, the company is still good value with an enterprise value of approx. 160 million usd (excluding 80 million usd of owned real estate on the balance sheet!), against a 30 million usd EBITDA range. That is an enterprise value to EBITDA of a little more than 5x for a company that is now mostly an asset-lite management company.

Management clearly had a challenging operational year, but once the covid situation has been mediated the most important question will be now capital allocation strategy. To put it more bluntly: what with all the cash?

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 from Jeremy Grantham about how he believes - and we together with him - this event will eventually be recorded as one of the great bubbles of financial history, right along with the South Sea bubble, 1929, and 2000:

https://tartaros.lu/uploads/cgblog/id114/Waiting_for_the_Last_Dance_1-2021.pdf

A must read about the eerie and dangerous parallels between today's markets and the markets back in 1999, and about the paradoxes of value investing:

https://tartaros.lu/uploads/cgblog/id112/Tonight_We_Leave_the_Party_Like_Its_1999_-_Oct2020.pdf

A must read about how technological disruption is not the cause of value's underperformance over the past decade:

https://lt3000.blogspot.com/2020/11/unravelling-values-decade-long.html

A must read about Wall Street and their market prognostications, despite a horrendous record in forecasting:

https://www.nytimes.com/2020/12/18/business/stock-market-forecasts-wall-street.html

A must read (tweet thread) about ergodicity and why it matters in life and investing:

https://twitter.com/DellAnnaLuca/status/1339621384734072833

A must read (in connection with the one about ergodicity) about being the last man standing in business / investing:

https://www.collaborativefund.com/blog/standing/

A must read about the internet bubble of the 1990's:

https://www.amazon.com/Bull-History-Boom-Bust-1982-2004/dp/0060564148/ref=sr_1_1?crid=TA1K41OI075G&dchild=1&keywords=bull+maggie+mahar&qid=1609151901&sprefix=bull+mag%2Caps%2C792&sr=8-1

Administration and the next update

One of the pillars of common sense is summed up by a quote often credited to Einstein: "The definition of insanity is doing the same thing over and over again but expecting different results." Yet, amazingly, over multiple years, that's exactly what we do in investing, and it is exactly what we should do! The fact that this feels like it goes against basic common sense (it really doesn't) is a big part of what makes this so hard. But, in a much longer-term sense, hard is actually good. More than good, it's necessary.
-Cliff Asness, Cliff's Perspectives, December 2020

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

Thank you, as always, for your trust in letting us manage a portion of your hard-earned money. If you have any questions or are interested in adding to your Fund investment or know someone that might be interested in becoming an investment partner, please email or call us.

Here is to staying a little bit insane… ;-) Happy New Year!

The Tartaros Team

2 Fund Overview

2.1 General Overview (end of Q4 2020)

2.2 Fund Positions

	Asset Class
Equities	61,49%
Preferred Equities	1,54%
Corporate Bonds	8,21%
Cash (Equivalents)	28,76%
	100,00%

	Industry (as % of Fund)
Materials	14,20%
Consumer Discretionary	2,59%
Consumer Staples	7,19%
HealthCare	3,41%
Financial Services	8,26%
InfoTech	3,60%
Communication Services	6,25%
Utilities	0,97%
Real Estate	10,41%
Energy	6,15%

	Currencies
USD	58,67%
EUR	3,94%
CAD	18,78%
YEN	15,96%
GBP	1,22%
HKD	1,43%
	100,00%

We have no short positions and no leverage. We are invested long in 26 positions.

Position	*% of portfolio*
Investment 1	10,41%
Investment 2	7,19%
Investment 3	6,15%
Investment 4	3,93%
Investment 5	3,57%

It should be noted that all numbers are approximations.

2.3 NAV Series

TARTAROS FIS SCA GLOBAL VALUE C1 A CAP	221,78
TARTAROS FIS SCA GLOB VALUE C7 CAP 311219	99,25
TARTAROS FIS SCA GLOB VALUE C8 CAP 310320	116,32
TARTAROS FIS SCA GLOB VALUE E1 CAP 300420	108,50
TARTAROS FIS SCA GLOB VALUE E2 CAP 301020	104,41

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	-3,60	0,08	0,84	1,25	4,89	0,09	-0,75
Msci world	0,60	-7,17	-14,41	12,38	3,01	1,45	-0,56	5,37	-1,69	-2,48	9,68	1,66	4,52
Eurostoxx 50	-2,87	-8,55	-16,30	5,06	4,18	6,03	-1,85	3,09	-2,41	-7,37	18,06	2,26	-4,72

*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.