1 General Overview

Thursday, 7 July 2022

Forming macro opinions or listening to the macro or market predictions of others is a waste of time. Indeed, it is dangerous because it may blur your vision of the facts that are truly important.
- Warren Buffett

Dear Partners:

The Fund finished the second quarter of 2022 -11,1% in the min, versus -11,47% for the Eurostoxx 50 and versus -11,27% for the MSCI World Index. Ytd we are down -15,05%.

The Net Asset Value of the Fund is 240,44 (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)*

2022	*jan*	*feb*	*mar*	*apr*	*may*	*jun*	*jul*	*aug*	*sep*	*oct*	*nov*	*dec*	*ytd*
Fund	0,61	2,07	-2,91	2,04	-5,44	-11,70							-15,05

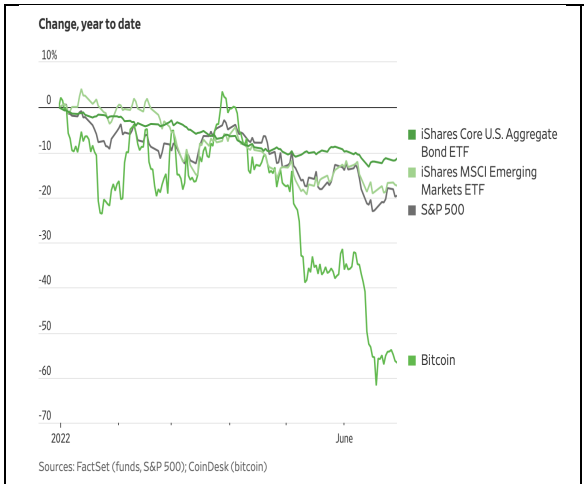
*Please note that individual investor net returns will vary due to the timing of one's investment. The 2022 results reported above are unaudited estimates and may be subject to change.

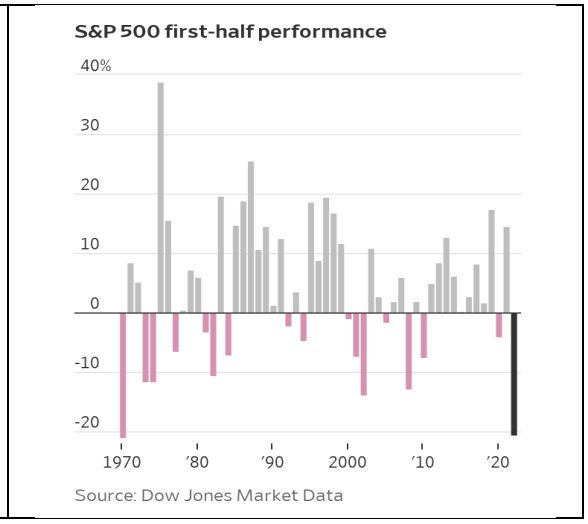
Over the past couple of quarters, we wrote that the concentrated nature of our portfolio could lead to higher volatility and the last two weeks of June were – unfortunately, but not unexpectedly – a perfect example of what we warned for.

Until the middle of June, the Fund was zigging (down only 2% for the year), while the stock markets were zagging. But then the stock markets (and our Fund) were caught in another downdraft and especially anything touching commodities – energy, fertilizers, metals, industrials – was absolutely smashed as the "market gods" (aka the most panicking market participants) had suddenly decided that – we can only guess – an imminent (and deep) recession outweighs the structural supply-demand imbalances in many of these underlying resource markets.

In any case and whatever the right or wrong reason, when everybody decides to hit the sell button at the same time, you get very sharp price drops as there is not enough bidding to sustain prices; this is just how the marginal pricing mechanism works.

There was never a reason to suspect that our collection of (idiosyncratic) investments would be immune from market turmoil. And unprecedented market turmoil is what we got in the first half of 2022 with the S&P500 closing off its worst H1 performance since 1970 and with Europe having its worst H1 market performance since 2008. Since bonds did not provide any counterweight this time around, we had an unprecedented drawdown in financial wealth (cf. What?! (3)).





In the real world, things fluctuate between pretty good and not so hot. But in the markets, they go from flawless to hopeless. Just think about that one sentence. If it's true – and I believe it's true – that shows you the error, because nothing is flawless and nothing is hopeless. But markets, I believe, treat things as flawless and hopeless, and there's the error.
- Howard Marks

Certainly, the combination of slowing growth (post covid-pent-up-demand), a protracted war in Ukraine, de-globalization trends, insane zero-covid policies in China, high inflation and hence rising interest rates all occurring at the same time seem a certain catalyst for a recession and mean reversion of profit margins. Debates have already shifted from whether a recession might be coming to if one has already started and how long and deep it will be.

In just a few months, the financial markets have gone – once again – from peak euphoria (flawless) and insane valuations to peak fear (hopeless) and corresponding face-ripping market declines. But nothing lasts forever. The problem is, we always overemphasize our current experiences, while we always – in both good and bad times – discount the rhyming history.

We have learned to never underestimate the markets. But when carefully considering that the market cannot be that wrong and the current pricing of the Fund's holdings is "correct", we remind ourselves that every technology related company went unimaginably crazy for a couple of years… the current carnage in that sector (cf. What?! (2)) shows that in the end the market was very wrong.

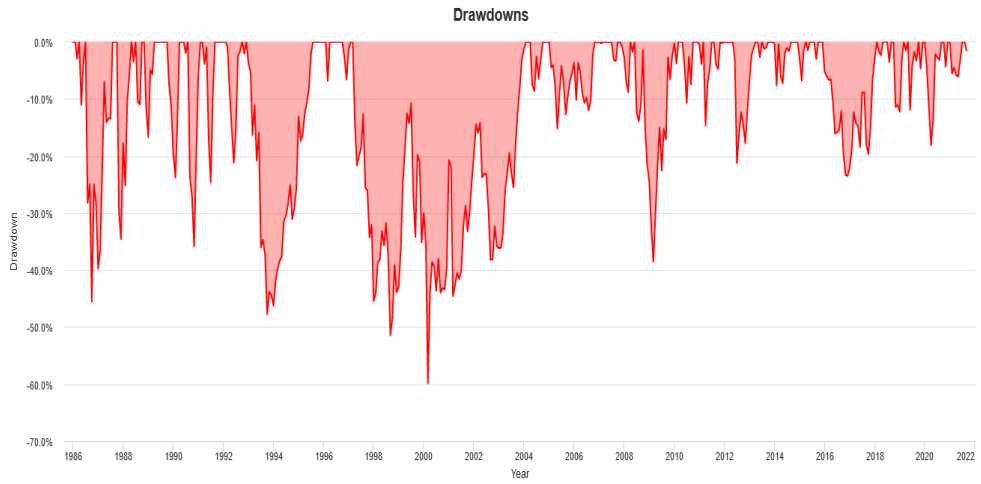
Nobody knows how all of this will turn out; not even Jerome – "We understand better how little we understand inflation" – Powell. Nobody has a crystal ball, but if we had to guess, we think that (1) the aftermath will probably look more like post 2000 and post 2008, than 2020-2021, and (2) that the financial markets (especially government debt markets) cannot bear high interest rates. But regardless of our macro guess, our only north star will always be the micro (businesses and their earnings power).

In times like these, you have to tune out the (market) noise (and possible market errors) and you have to re-focus on your investment framework. So, we just open our copy of Benjamin Graham's "The Intelligent Investor", and re-read Chapter 8 "The Investor and Market Fluctuations" and chapter 20 "Margin of Safety as the Central Concept of Investment".

What?! (1)

This (cf. 2021 Q4 Letter to the Partners) is a good reminder with respect to (the above mentioned) concentration and volatility:

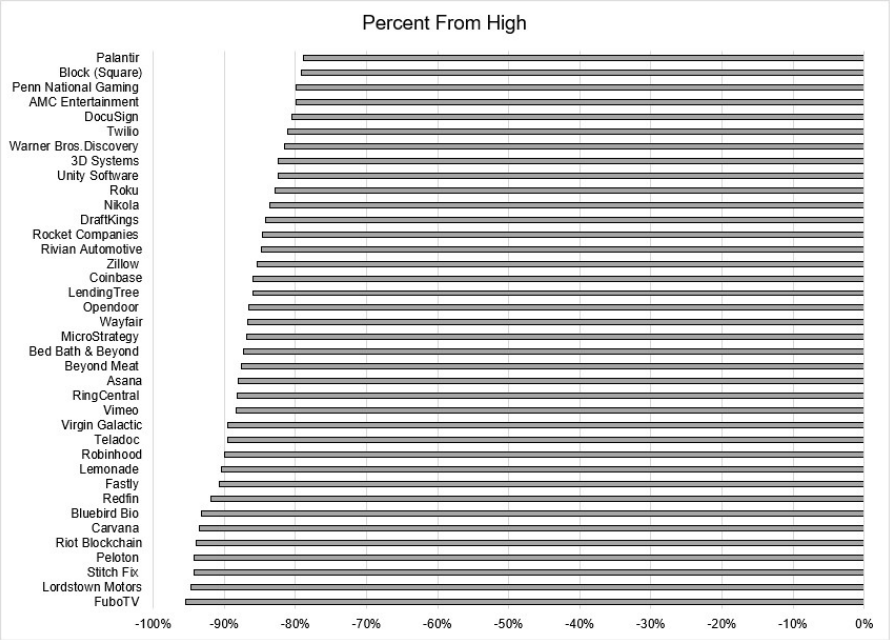
Since 1986, Nike has delivered a 21,43% CAGR and turned 10.000 usd into 10.163.992 usd This is what you had to go through to get there and earn that return.



Source: @ValueStockGeek

What?! (2)

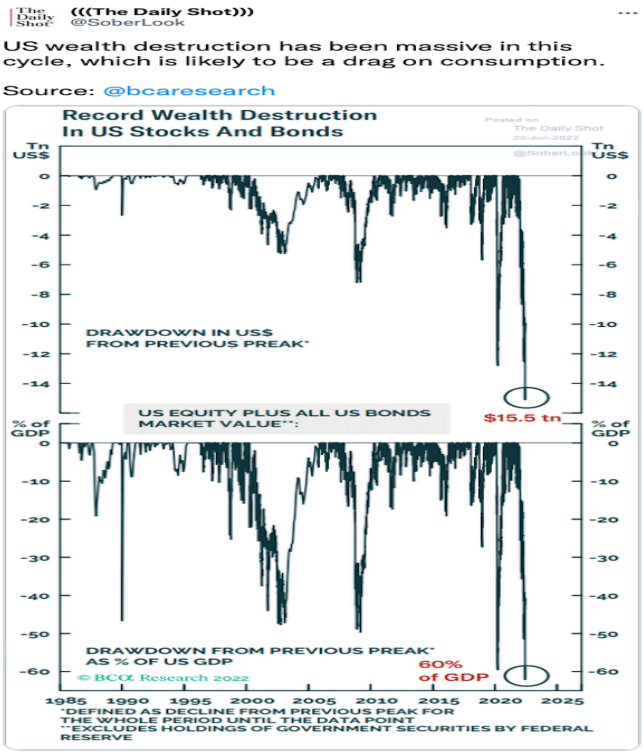
Once you pole-vault 17 feet they want 18 and it ends up you might break your leg trying. The mob must always be dismissed as something as insane as a river full of vomit.
- Charles Bukowski



Source: https://theirrelevantinvestor.com/2022/06/20/blown-up/

What?! (3)

As the equity market experienced a severe drawdown and bonds could not serve as a hedge in this market environment, we just witnessed the largest ever ''financial wealth'' destruction in history.

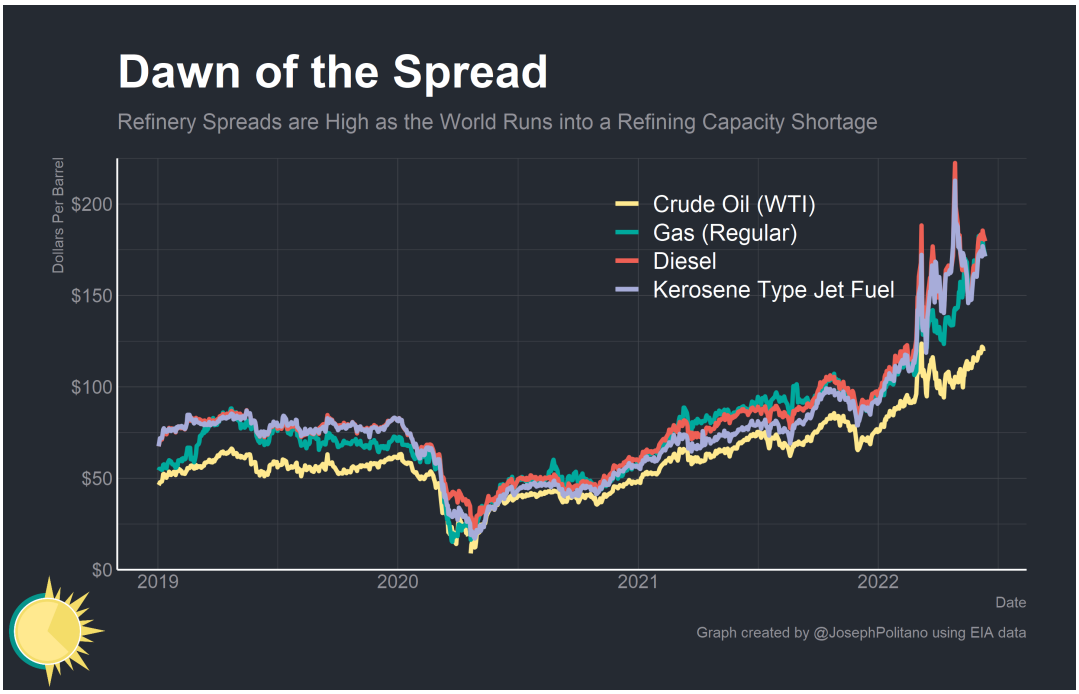


Changes in the Fund's Portfolio (cf. 2.2. Fund Positions for more details)

In the previous investment letter, we wrote the following about Calumet Specialty Products (CLMT): "But without a natural investor base it's still an orphaned and hence very illiquid Master Limited Partnership, so we expect share price volatility to continue until a (partial) value realization of MRL."

So, when in the middle of June, all of a sudden, the whole energy companies complex got sold down indiscriminately and relentlessly, the share price of CLMT got taken down – on very low volume – in just a couple of trading days from up +20% ytd to down more dan -30% ytd, back to down only -7,5% ytd and finally closing -20% ytd. Obviously, the large Fund position also means a larger effect on the ytd performance of the Fund.

Calumet's specialties business, comprised of both B2B and B2C lines, had a slow first quarter. But during the share price sell-off, CLMT actually pre-released blow-out results for its (legacy) specialties business. We expect the legacy business (excluding the renewable diesel subsidiary Montana Renewables (MRL)) to realize an ebitda range of 200-250 million usd in "normal" times. The company pre-released 100 mio usd ebitda for Q2 alone. The company is clearly and luckily overearning in this environment, but the cashflow is real nonetheless. CLMT stressed that this provides organic de-leveraging (strong free cashflow) next to the ongoing process for inorganic (MRL equity) de-leveraging.



In the Q1 conference call, CLMT's CEO also referenced (https://www.wsj.com/articles/chevron-buys-biofuel-company-for-3-15-billion-11646068044?mod=business_lead_pos12) the third-party transaction that we already referenced in our previous investment letter quarter. The company stated that it confirmed its valuation expectation and market lead in the field of independent renewable diesel producers. In light of these developments CLMT has since engaged Lazard to formally optimize its Montana Renewables (MRL) equity options.

Lazard has more than one viable path toward a market-based valuation at the now-fully-carved-out and still wholly-owned subsidiary MRL, that should take the market by surprise.

CLMT originally expected phase 1 to start-up in the second quarter of this year. But the company has delayed it to coincide with the start-up of its pre-treater unit. The company also pushed out a full Montana plant turnaround from the second to the third quarter, after which the Renewable Diesel unit will start-up. The delay will enable Montana Fuels to also capture extra cashflow from the summer asphalt strength.

CLMT noted that it will be able to run even more locally, low-CI sourced feedstock than initially envisioned; this should enhance project economics. Separately, CLMT discussed including optionality to produce 2kbd renewable kerosene / sustainable aviation fuel (SAF). Project feedstock contracts for 2022 are signed (e.g. tallow feedstock is already being delivered), and the 2023 volumes are in late stages of negotiations. The product placement contracts are executed or in final documentation phase.

cf. https://calumetspecialty.investorroom.com/Events?item=89 for a detailed MRL project update.

No matter your view of the current swift energy "correction", the share price of CLMT does seem to be completely disconnected from the macro (e.g. refining capacity / cracking margins & legally mandated renewable diesel demand) and micro fundamentals. As written at the beginning of this letter, you always have to check and re-check your investment thesis, because you can never underestimate the markets. But when carefully considering that the market cannot be that wrong, we just remind ourselves that every technology related company just went unimaginably crazy for a couple of years… the current carnage in that sector shows that in the end the market was very wrong.

Other examples of (deep) value in the Fund are:

Aimia trades below the value of the cash (approximately 6 cad per share) that will be on their balance sheet around mid-July from the sale – already approved by the Mexican antitrust authorities – of the company's 48,9 percent stake in PLM Premier (which owns Club Premier) to Aeromexico; the sale of Club Premier gives Aeromexico full control of its loyalty program.

Mobruk, the Polish waste management company, has a net cash position and is now trading on less than 9x price-earnings multiple and almost 11% dividend yield on already reduced estimates. (cf. 2021 Q3 Letter to the Partners) It should be noted that the Polish stock market is one of the cheapest in the world right now.

After the sale of their insurance brokerage business (Corant Global), BGC Partners has become a focused global, inter-dealer (hybrid) broker for the financial markets. The company, trading at less than 6x this year's earnings - should be a major beneficiary from volatility in the financial (especially debt) markets. If we assume a 20x price-earnings multiple for BGCP's 15%+ growing electronic/software platform, the SOTP (sum-of-the-parts) could be more than double the current share price. It should be noted that similar electronic platforms are trading between 25x-35x earning.

Shinoken (30% owned by management) is a project developer of apartments and condominiums in Japan. But more crucially, 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 (50% of current operating profits) with high-profit margins and high returns on capital. The company has no debt and is trading at 6x this year's earnings. (cf. 2020 Q2 Letter 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 opinion of Warren Buffett and Charlie Munger on crypto currencies:

https://www.cnbc.com/2022/04/30/warren-buffett-gives-his-most-expansive-explanation-for-why-he-doesnt-believe-in-bitcoin.html

A must read about the U.S. refining industry:

https://www.afpm.org/sites/default/files/2022-06/20220615%20POTUS%20Letter%20re%20Refining%20Capacity%20FINAL_AFPM_API.pdf

A must read about web3:

https://newsletters.theatlantic.com/galaxy-brain/62ba500cbcbd490021aaef70/web3-crypto-movement-uses-marc-andreessen/

A must read about Warren Buffett's oil & gas investments:

https://bisoninterests.com/content/f/buffett-buys-oil-gas-stocks

Administration and the next update

Unfortunately, Know Your Customer (KYC) and Anti Money Laundering (AML) rules are getting stricter every year. You will probably have noticed similar requirements for all your other investment and banking transactions. The Fund administrator EFA is legally obligated to re-identify the Fund's shareholders every x years, depending on their risk categorization of the shareholder; they are also required to ask for much more documentation when they do so.

All of this is beyond our control! We will assist you in any way we can, but please remember that in the end the responsibility lies with you to fulfill these requirements.

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!

As always, we are grateful to have you as our partners on this wealth creation journey.

Enjoy the summer holidays!

The Tartaros Team

2 Fund Overview

2.1 General Overview (end of Q2 2022)

	Asset Class
Equities	86,41%
Cash (Equivalents)	13,59%
	100,00%

	Currencies
USD	63,54%
EUR	0,23%
CAD	14,86%
YEN	10,55%
PLN	5,65%
AUD	3,29%
MXN	1,03%
ILS	0,85%
	100,00%

	Industry (as % of Fund)
Materials	14,57%
Industrials	8,48%
Consumer Discretionary	1,03%
Consumer Staples	5,36%
Financial Services	9,01%
InfoTech	0,84%
Communication Services	8,21%
Real Estate	8,28%
Energy	30,63%

We have no short positions and no leverage. We are invested long in 22 positions.

Position	*% of portfolio*
Investment 1	30,01%
Investment 2	5,49%
Investment 3	5,40%
Investment 4	3,73%
Investment 5	2,90%

It should be noted that all numbers are approximations.

2.3 NAV Series

TARTAROS FIS SCA GLOBAL VALUE C1 A CAP	240,44
TARTAROS FIS SCA GLOB VALUE E3 CAP 31012022	84,43
TARTAROS FIS SCA GLOB VALUE E5 CAP 31032022	85,21

2.4 Return Overview

Below are the results of the Tartaros Global Value Fund for 2022; 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)*

2022	*jan*	*feb*	*mar*	*apr*	*may*	*jun*	*jul*	*aug*	*sep*	*oct*	*nov*	*dec*	*ytd*
Fund	0,61	2,07	-2,91	2,04	-5,44	-11,70							-15,05
Msci world	-4,01	-2,84	3,49	-3,41	-1,70	-6,59							-14,36
Eurostoxx 50	-3,00	-6,00	-0,55	-2,55	-0,36	-8,82							-19,73

*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 2022 results reported above are unaudited estimates and may be subject to change.