THALASSA
CAPITAL LLC

Quarterly Letter March 2017

Written March 31, 2017

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"I guess I should warn you, if I turn out to be particularly clear, you have probably misunderstood what I have said."
Alan Greenspan

Alan Greenspan, Chairman of the Federal Reserve from 1987 to 2006, was famous for his cryptic way of communicating monetary policy. He was the product of an era that viewed surprise and opacity as fundamental instruments for successful policy implementation. In spite of his training, he actually initiated, timidly, a new era of increased transparency.

More open communication from the Fed became a trademark of successor Ben Bernanke and now current Chairwoman Janet Yellen. However, at this juncture, confusion of message does not seem to come from the Fed, which looks set on a relatively slow normalization path of monetary policy but rather from other institutions such as the new Administration and Congress.

The latest debacle in passing the new health care law has created in the investors' minds a sense of doubt of what can actually be accomplished by the new government. Since Election Day, the market cheered what was perceived to be a short term pro-growth agenda but it is possible that either the implementation period will take much longer or that the actual results will be much less significant. Given the current level of valuations of most risky assets (high) and historically low levels of volatility, much of future performance relies upon proper execution.

The new Administration must ensure its agenda gets properly negotiated and blunders such as the rushed and generally incongruous health care bill must not be repeated. Corporations also need to continue to execute on their earnings story. Global growth is expanding in spite of general geo-political instability and earnings are rebounding strongly. With the new Quarter data soon to be released, investors will get an important check on the pulse of Main Street.

In light of the Central Bank retracement combined with rich valuations, we are witnessing a lower level of asset correlations. This should provide some advantage to

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actively based strategies and independent research. Strong diversification by asset classes and by strategies should also provide possible outperformance and a volatility cushion should risk premia rise.

In regards to specific sectors we are actively engaged in, we continue to see value in real asset based areas such as MLPs and REITs. As far as Energy Infrastructures, YTD performance is rather flat as most investors' attention is focused on the second half of the year and yet again on the proper execution. A higher and more stable price of oil has so far significantly helped the domestic producers; this should translate in higher volumes in H2 2017. Naturally, after, the 2014 near death experience, the fear of another commodity collapse are still vivid, yet conditions seem materially different this time around. The supply – demand equation seems better managed and balance sheets much healthier. An expanding market for LNG should also benefit pipelines and terminals operators.

From a valuation perspective, MLPs are still attractive as their spread over High Yield bonds is historically high. The spread over the 10 year US Treasuries is also still above historical averages albeit not quite as attractive as last year. Given backlog projects and average expansion estimates, distribution growth should be in the 5% range.

Another real asset based sector, REITs, has become over the last few months much more interesting. The correction that started last August seems to have run its course and valuations are now more reasonable. Dividend yields also continue to be attractive.

On technology, while most investors' attention is on consumer apps and social media given the recent Snapchat IPO, we continue to prefer to play the sector from an infrastructure perspective. Our focus remains on the wave of connectivity that is shaping data gathering and processing (Internet of Things). Our portfolio registered a few big winners as the result of strategic acquisitions but also a few laggards especially in the security subsector where the fragmentation of the protocols contributes to high levels of uncertainty and stock specific volatility. Our performance since inception has been nicely positive overall, albeit mostly in line with the Nasdaq index, and our long term outlook remains significantly constructive.

As always, we would like to thank you for the renewed confidence in our work,

Youri Bujko

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