

Dear Investor Friends,

"It's hard to explain the sway exerted by the fear of being different, the fear of departing from the herd by even a few steps, unless one understands how deep is the need not to be separated.....Most people are not even aware of their need for conformism. They live with the illusion that they are obeying their own ideas and inclinations, that they are individualists, that the opinions they have formed are the result of their own thinking, and that, if their ideas are the same as those of the majority, this is something of a coincidence. The universal consensus is proof that their ideas are right..... Insofar as concerns the art of love, this means that those who want to become a master of this art must begin by practising discipline, concentration and patience in every stage of their life.....we must learn to concentrate on whatever we do, whether we be listening to music or reading, speaking to someone or watching a scene."

After "The Art of Love", Erich Fromm could also have written a book on investment. At Amiral Gestion, every day we are aware that we lack discipline, we are not patient enough, we are too easily influenced. As regards our portfolios, they are entitled to only weak concentration (no more than 10% in a given security, and securities representing individually more than 5% of assets may not exceed 40% of the total). To progress and provide you with ever stronger performance, it has always seemed to us that it would be necessary to manage a hedge fund. After six years of very fine performance by our investment funds and having built a sound, experienced management team, we believe we have everything needed to succeed in this exciting new challenge with our new Sextant Inc. fund.

SEXTANT INC.

This fund is an "ARIA EL" (leveraged fund with simplified investment rules). That means an investment fund that is open only to so-called qualified investors and which has very great freedom of investment, including with regard to risk taking.

Sextant Inc. Strategy

Hedge funds often have very specific strategies. For example the "market neutral" strategy which aims to match each long position with a short position so as to completely cancel out market risk. For Sextant Inc., the strategy is to have no strategy. The idea is simply that the fund may benefit from all our expertise. We shall invest with the utmost caution, being limited only by our field of competence. We want to have at our disposal all the necessary tools, but without any obligation to use them. We shall therefore be able to:

- Concentrate the portfolio strongly, with up to 30% invested in a single share, and up to 90% in three shares. If we find three exceptional shares that are greatly undervalued, with a net asset value that protects us from any long-term losses, why invest in other shares?
- Short a share, either because it is too expensive, or by arbitraging with another share that is less expensive but entails a market risk that we do not want to take.
- Buy funds, convertibles or commodities via listed ETFs.
- Buy or sell index futures.
- Buy or sell index options.

- Use leverage, up to 300% of the fund's net assets. This is generally not our way of doing things, but a little leverage in exceptional situations could be worthwhile. Especially for risk arbitrage transactions.
- And of course, invest on any stock market in the world.

Sextant Inc. will in no case be a fund that is permanently hedged. It will be of somewhat the same style as Grand Large, but with more freedom, undoubtedly more volatility, and possibly stronger performance. The management philosophy will be strictly the same as that of our investment funds and the securities will largely be the same. Simply, the toolbox will be more sophisticated. We shall be able to use these tools or not. This in no case means speculating or taking excessive risks. But always understanding clearly what we are doing, and staying within our field of competence. Our master Warren Buffett, as always, has some excellent ideas on this:

“There’s no form that produces good investment results, be it hedge funds, private equity funds or mutual funds. What makes the difference is whether the people running them know their strengths and weaknesses and play when it is to their advantage and do nothing when it is not”.

Whitney Tilson’s 2007 Berkshire Hathaway Annual Meeting Notes

Are you a qualified investor?

A hedge fund can go bankrupt and in theory be worth less than zero. By using leverage, for example: you have 100 euros, you borrow 500 euros and you invest it all in Sextant PEA in early January 2008. Any maths genius will understand that on 15 February, after a fall of about 20% in the price of the PEA fund, your banker will begin to worry. And will ask you to pay him back. As you have lost roughly 120 euros, your initial stake has gone up in smoke and in addition you owe 20 euros to the bank. Since a hedge fund can use leverage, it can very quickly lose all its assets, or even more. However, the unit holders are protected and cannot lose more than their initial stake. As in the recent Société Générale case, it is usually the bank that foots the bill, after the management company has gone bankrupt and the fund manager has fled to Argentina. You should also know that it is not very easy to get your money back from a hedge fund. You sometimes have to wait for as long as a month. It's very annoying. Because of course when you would like to sell you will probably have forgotten the exit procedures.

The regulator therefore requires that access to such funds be reserved for sophisticated investors so as to protect savers from unpleasant surprises and unassessed risks. To be able to subscribe to an "ARIA EL" fund, you have two possibilities:

1. Invest a minimum of 125,000 euros, and in that case you won't have any problems. You will not need to make a declaration.
2. Declare that you are a qualified investor, and in that case you will be able to invest from as little as 10,000 euros. To be qualified, you must either have financial assets worth at least one million euros, or have worked for at least one year of your business career in a financial institution.
3. There is a third possibility, without any limits on the subscription amount: through a life insurance policy. You can subscribe to ARIA EL funds approved by your insurer within the limit of 10% of your portfolio. We are working on this subject.

You will find all the necessary administrative information on our website.

News from the Front

Our funds have declined since last summer, and we're very sorry about that, but such rather unpleasant periods are unfortunately inevitable. The low prices and lack of confidence nevertheless have some advantages for the Sextant investor. First, we can profit from the bargains and buy up shares at sometimes quite incredible prices. For example for less than their cash at bank (Ad Pepper), something we hadn't seen since 2002. Or 2007 P/Es of less than 15 for companies whose market capitalization is 40% covered by their cash, with turnover growth rates of 20% to 40% (OL Groupe, Hanse Yachts, Interhyp). Give us more of the same! But there's more than that. The companies we hold in our portfolio can also take over competitors at a discount (Budget Telecom). Even more interesting is the fact that the private equity funds (which buy and especially fund unlisted companies) are going to stop supporting companies in poor health, which will make the competitive landscape healthier for many of our investments (Gameloft). Especially in high-growth sectors, where venture capitalists were prepared to invest in loss-making companies that were fighting against our own champions to win market share from them. When the whole market is rising, even loss-making firms are expensive.

In the storm, you need cash to stay alive. We have cash, and our companies have cash. We are prepared to profit with you from the current crisis. Sometimes, when the market is no longer working at all, companies can profit from this. Genesys, in which we recently acquired an 11% stake, is the target of a takeover bid by its US competitor West. It can't be said that it's the strength of the US dollar that made Genesys so attractive for West. The price paid, 2.5 euros, offers us an exit door with an immediate gain of 50%, but West is likely to do a far better deal than us in the medium term...

Doctissimo is also being delisted as a result of a takeover bid by Lagardère at 30.50 euros. We wipe away a tear, because if we had kept until now our Doctissimo shares bought for 60 cents, we would have achieved a far better performance. The list of wealthy buyers is not infinite, but this takeover bid confirms us in our belief that the large media groups which have missed out on the transformation to the web society are obliged to pay the price to stay alive today. We still have a few companies in the sector which could experience the same fate in the medium term.

Now, we're not telling you that we're smugly optimistic. On the contrary, we are well aware of the seriousness of the situation. US consumption is very likely to experience a sharp slowdown. For heaps of reasons, but one of the most lasting and profound reasons will be the dollar's loss of its status as an international reserve currency. In the past, suppliers of the United States were paid in dollars and kept them on their bank account in the form of US Treasury bills. This game could go on indefinitely, through the magic of the printing press. But nowadays, creditors such as the Chinese and Indians, for example, want to also consume and invest, or in other words take part in the capitalist game. So in return for the products they sell, they buy assets. They are still paid in US dollars, but the dollar is now merely a trading currency and no longer a reserve currency. In theory there is now an end to the game of US over-consumption: when the Americans have sold all their assets, they will no longer be able to buy anything. Logically, this situation should bring the USA back to economic normality, whereby a trade deficit causes a fall in the currency, hence in purchasing power, hence in consumption, and finally a return to a balanced situation.

It seems clear that the western countries, and chief among them the USA, will never repay their debt, but will continue to print pieces of paper. Which means that those holding dollars throughout the world will want to exchange them for safer assets: wine estates in the Bordeaux region, gold mines, US investment banks, farmlands in Russia, etc. Now it so happens that we have in our funds assets which are not printed either. A football club that has won the French championship six times, oil wells, millions of unique visitors on Internet in France or mobile phone subscribers in India, etc. And that the value of these assets already largely factors in a serious economic crisis.

News of Peak Oil

We are therefore generally pessimistic about the current situation. In fact we have been pessimistic for some years now, almost always. When investing on the stock exchange, a good rule of survival is to expect the worst tomorrow (while remaining reasonably optimistic for the long term). Take Peak Oil, for example. In 2007, Shell's production fell 7%, while Chevron managed to replace only 10% to 15% of its production. Worrying. However, we are not worried about a fall in oil prices, even in the event of an economic slowdown. Here are two further reasons strengthening our conviction, if that were necessary:

1. Over the last two years the OECD's oil consumption has declined but its imports have risen. Simply because US and North Sea production has fallen sharply. Production is declining faster than consumption, so that it is necessary to buy ever more from OPEC. In such a situation, there is really no reason why it should lower its prices.
2. The more prices rise, the more consumption rises... in the oil exporting countries. The latter are investing their super-profits in infrastructure (motorways, airports, desalination plants) and are buying cars, aircraft and tanks. And filling up their petrol tanks. The inhabitants of the OPEC countries and Russia consume significantly less than the Americans and Europeans. Why should that continue indefinitely, when a growing number of them are significantly richer than us?

Oil stocks, especially the small caps, have collapsed, falling far more steeply than the market, although energy prices have not fallen by a cent. More than ever, our convictions remain intact and we are happily buying a huge margin of safety. Everyone does not agree with us. The financial analysts' consensus projects a drop in oil prices to US\$65 per barrel this year. The chairman of French petroleum institute IFP also thinks that OPEC will bring new capacity to market and cause prices to fall. Finally, all the strategists with whom we have spoken for some months now predict a sharp fall in oil prices in early 2008. We still don't believe it. It's what is called having the faith: "... a distinction should be made between irrational faith and rational faith. ... Whereas irrational faith is the acceptance of something as true because an authority or the majority asserts it, and only for that reason, rational faith is rooted in independent conviction, based on observation and on the productivity of personal thinking, despite the majority opinion." Erich Fromm, on the most beautiful long-term investment: love.

See you very soon

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