



Dear Investor Friends,

It just shows our lack of education and our confusion! We haven't even presented you our best wishes for 2009. It must be said that given the performances we have offered you since the summer of 2007, we would perhaps be better to stay hidden under our desks. Especially since for 2009, 2010 and the following years, visibility is almost zero, except for the bad news. Heaps of exciting things could happen, such as an economic depression on an unparalleled scale. In short, we're thoroughly depressed...

So what's the solution? Regarding your Sextant funds, you can legitimately ask yourself two questions: should you be invested in equities in the thick of a major economic and financial crisis and, if so, should you entrust your portfolio to the Amiral Gestion team?

Equities in the thick of the storm?

I'm not going to you give you one more description of the current economic situation, but I shall simply say that it is absolutely dreadful, and no doubt even worse than that. For an investor, it's not a very pleasant environment, because it is very hard to determine valuations for our companies. If the French no longer drink anything but tap water, how can Danone be valued? If wealthy middle-class women buy ready-made clothing from Camaïeu, and if birthdays are celebrated with Kriter sparkling wine, will the haute couture and champagne magnate Bernard Arnault still be the richest man in France? Consumption is going to decline, possibly for a long time, and probably with no hope of a return to the excesses of recent years. So much the better for our children, perhaps (in 2008 and 2009, three children will be born to Amiral Gestion families, which undoubtedly makes our perspective increasingly focused on the long term!). But too bad for financial analysts, who love to draw very straight lines, toward heaven or hell. There is too much uncertainty, the market no longer has a very good idea of what our companies are worth. Which is why nervousness is at a height, and share prices can easily fluctuate by more than 10% in a single day. Too much uncertainty, no doubt, but what about risk?

Risk and uncertainty

It is not always easy to distinguish between risk and uncertainty. It might be thought that a Lotto player, for example, takes no risk, because he knows what he can lose and that the loss will be quite bearable. At the same time, intuitively, is there not complete uncertainty? Couldn't the player win millions like any old slum dog? It could be debated at length, but it seems to me that the opposite is true. You simply have to adopt the reverse viewpoint: the lottery operator, Française des Jeux for example, is certain to win the jackpot. So there is no uncertainty for the players and a definite risk, a loss that is known in advance.



Since people love playing Lotto, one could therefore conclude from this that human nature prefers risk to uncertainty. For an investor (who tries by all possible means not to form part of the "herd", and it's not easy), this proposition is very interesting. It could lead to the following reasoning: the less uncertainty there is, the more risk there is, and on the contrary, the more uncertainty there is, the less risk there is. This of course is completely counter-intuitive, but in fact, it would seem that we often confuse these two concepts. This is emphasized by one of the best US fund managers, Mohnish Pabrai:

Wall Street sometimes gets confused between risk and uncertainty, and you can profit handsomely from that confusion. The low-risk, high-uncertainty situation gives us our most sought after coin-toss odds. Heads, I win; tails, I don't lose much!

Source: *Value Investor Insight*, June 2007

The idea is simple: you don't know very well what will happen, but the market can offer you prices that factor in the worst-case scenario. In such cases, although there may be complete uncertainty, you are taking only a very small risk. Remember Internet shares in 2000. We were all certain that there would be a rosy future for these companies - there was no uncertainty. But the risk was enormous, because those shares were trading on multiples that could not tolerate the slightest bad news. After a few disappointments, there came to be complete uncertainty about certain business models such as advertising on the Net. The most brilliant specialized financial analysts no longer believed in this medium, and some companies that were already earning a little money eventually came to be valued at far less than their cash at bank. Extreme uncertainty, but zero risk.

In October 2002, we published a newsletter that we entitled "Benjamin Graham and the Nouveau Marché". We had read an article published by Graham in June 1932, giving a rather striking description of the situation of the US market after a decline of ... 90%.

Many equities in the Sextant PEA portfolio were at that time trading on valuations similar to those of American stocks in the depths of the Great Depression. This is again the case today, with many companies that are valued at hardly any more than their capital employed, and sometimes far less! Although we do not have the slightest idea where the economy will go over the next two or three years, we nevertheless feel that the risk is now very low. In the short term anything can happen, but over the long term, the current situation looks very much like a win/win bet. Of course, you can always try to buy at the bottom. You surely know a few friends who sold their equity portfolios in July 2007. They're the same ones who will explain to you, after the market rise, that they bought everything back in the market trough. But a human investor must be able to take heavy losses in the short term to be able to win in the long term.

Equities or money-market funds?

Money-market funds are very useful financial instruments for investing your cash. Your money invested in these products is available on demand, and also has the nice advantage of not halving in value in a few months' time. But, over the long term, it is not certain that this is



a good investment. Interest rates have fallen practically to zero, whereas one day or another inflation will eventually resurface. At present, money-market funds are the virtually obvious investment, a safe haven for all terrified investors. In such times, the favourite theme is "Cash is King".

But as a defence against inflation, I'm not sure that investments at such low rates are a good solution. It is better to invest in good companies that are selling good-quality, useful products, and that could of course raise their prices if currencies lose value. Buffett is the owner of See's Candy which makes and sells chocolate confectionery in California. Here is what he thinks of his candies and inflation:

You know, if the dollar becomes way--worth way less, we will sell See's Candy for more money. I mean, it won't be more real dollars, but we--if somebody's willing to give up 15 minutes of their labor or half to buy a pound of this or to buy six cans of this, they'll do the same thing and it won't make any difference whether shark's teeth are being used for money, basically.

So the best--well, the best assets you can have during inflation is your abilities. I mean, because if you're the best doctor in town or the best lawyer in town or the best broadcaster in town or whatever it may be, you will always command a certain percentage of the resources of society. So your own talents are the most important thing. But if you don't have any talent like I do, you try to buy into other people's talents. And you know, this is the best candy. This is the best soft drink, as far as I'm concerned, and it will be that way 10 years from now. And whatever the value currency is, we'll get our share in that--in terms of that value at that time.

Source: *Warren Buffett on CNBC, 9 March 2009*

To sum up, it is likely that equities will be a very good investment if you have five or ten years ahead of you. Likely, because it's all just a question of probabilities. Nothing is certain, but anything is possible. Let's just say that according to our own convictions and those (possibly more reliable) of Warren Buffett, according to the risk-uncertainty theory, you should buy equities.

But with some reservations. The aim is not play a market rebound that could in the end prove very disappointing. But to find opportunities that already price in the very high uncertainty we have to face. The aim is to invest on real convictions, great win/win bets, but being ever more resolutely focused on the long term, so as to be able to take calmly the inevitable short-term losses that stock markets and your Sextant funds are bound to experience again, more or less violently, over the coming years.

The future for the Sextant funds

We can't say that we were very good in 2008. Of course, we had explained to you that even the best managers could have very poor years, and that one day it would happen to us.

In 2008 we made a few mistakes, including the mistake of keeping our oil stocks and even buying more at the peak. Unpardonable? After some rather unpleasant introspection, we were slightly reassured about our expertise on reading the latest letter from Berkshire Hathaway:



I told you in an earlier part of this report that last year I made a major mistake of commission (and maybe more; this one sticks out). Without urging from Charlie or anyone else, I bought a large amount of ConocoPhillips stock when oil and gas prices were near their peak. I in no way anticipated the dramatic fall in energy prices that occurred in the last half of the year. I still believe the odds are good that oil sells far higher in the future than the current \$40-\$50 price. But so far I have been dead wrong. Even if prices should rise, moreover, the terrible timing of my purchase has cost Berkshire several billion dollars

Source: *Letter to Berkshire Hathaway shareholders, March 2009*

For the future, we believe we are still well equipped to provide you with good performance. The most important thing is that we are not going to change our management philosophy. We shall still remain focused on the long term, insensitive to short-term losses (but not to falls in intrinsic value, and we have of course sustained some over the past year), concentrating on our convictions, and trying to avoid fads and market consensuses. At Amiral Gestion we shall endeavour at all costs to encourage discipline, creativity and integrity, but also, and above all, intellectual honesty. Finally, our personal positions in the Sextant funds remain more than ever a predominant variable in the profitability of our activity as investors. We increased our holdings in the downturn, and we have most of our assets in the Sextant funds. With no intention of losing money in the long term, quite the opposite.

In our portfolios there are some rather illiquid shares that have suffered more than the market. But they probably have far more strengths than the rest of the stock market to face up to the crisis. We hold virtually no small cap that is not literally stuffed with cash. There is therefore little risk of bankruptcy for the Sextant companies. Quite the opposite. A company such as **1000mercis.com**, for example, continues to report excellent results every six months. We believe that small companies of good quality and with a healthy financial position will rebound quite simply more than the market. For example, we are invested in a company that is capitalized at less than its cash at bank, that is buying back its own shares, that trades at about 5 times its 2008 earnings, and that will not necessarily see any decline in sales in 2009, because its business model is generally well adapted to an economic crisis. Since this company does not need so much cash, we have suggested that it pay a large dividend. The capital being divided among several members of the same family, we think that they would all be delighted. And the share price could easily double or triple. For a CAC 40 company to double its market capitalization, it will take time and very good micro- and macro-economic news. For some of our small companies to do the same, management would simply have to restore the market's confidence in their ability to get through the crisis without losing more than the equivalent of their market capitalization, i.e. their cash at bank. Now, for the time being, most of our companies are not losing money, or even still have very comfortable cash flows. We therefore believe that the small caps in our portfolio will be a strong performance driver for our funds in the future. We are also invested in big global leaders. Such as **Google**, which has \$20 billion in cash, and which is probably the advertising medium most resilient to the crisis, because its impact is directly measurable by advertisers. An advertisement on **Google** immediately results in an increase in audience, in sales and in net profit! Even in times of crisis, and especially so, why not benefit from it?



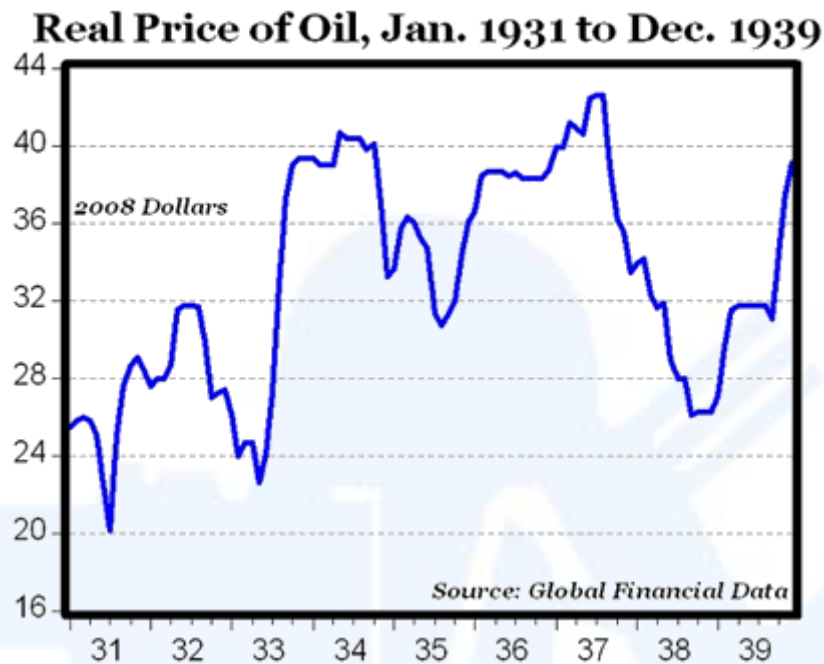
News of Peak Oil

Like everyone, we hope that, tomorrow, taxis, buses and delivery vans will run on electricity. And then that after tomorrow we shall all have clean cars. This will undoubtedly happen some day, perhaps sooner than expected. Moreover, global oil consumption has already declined sharply since 2007. But, at the same time, the natural depletion of oil fields is accelerating worldwide. Experts estimate that the wells in production are losing 4 to 6 million barrels/day of capacity each year. To make up for this inexorable decline, one Saudi Arabia must be discovered and then brought into production every two years! It's a very big challenge, at a time when all the companies, strangled by excessively low prices, are making very big cuts in their capital investment budgets. It should also be noted that OPEC's oligopolistic power is becoming stronger each day, as the forecasts of producer countries that are not cartel members are regularly revised downward. Norway and Russia, for example, are experiencing sharp declines in their production. As regards Mexico, which exports more than 1.4 million barrels per day, it could become a net importer in less than 10 years' time. Perhaps it will soon be compared with Indonesia, which has left OPEC because its exports of more than 1 million barrels per day have been transformed into imports over a period of only twenty years.



Source: BP Statistical Review

So OPEC still has some fine cards to play. And the current crisis aggravates the problem of Peak Oil. Capital investment, both in petroleum research and in renewable energies, has slowed down. Because of financing problems, but also because energy prices have fallen, jeopardizing the profitability of numerous projects. Oil prices could therefore be extremely volatile, and not necessarily always downward. It is interesting, too, to look at the price trend during the Great Depression of the 1930s:



The huge East Texas deposit was discovered in September 1930, and less than one year later it was producing over one million barrels per day, or practically half of America's demand at that time. That did not prevent prices from staying very firm over the following years. Largely because production control measures were organized by the Texas Railroad Commission, originally set up to restore order to the Texan railway system. The forerunner of OPEC, as it were. Except that the National Guard shut down wells by military force.

To sum up, we of course don't know what prices will do. It can simply be said that below 40 dollars, production capacity is destroyed, in the same way as the staggering price rise in 2008 destroyed part of demand. And the current crisis strengthens the view that oil prices will be very volatile over the next ten years. We are still scouting for growth companies that will profit from a rise in oil prices. But the current prices also give us an opportunity to mitigate risk with companies that will thrive on prices between 40 and 60 dollars.

Your devoted Crew