THALASSA
CAPITAL LLC

Quarterly Letter July 2014

Written July 3rd, 2014

THALASSA CAPITAL LLC

We don't see things as they are, we see things as we are.
Anais Nin

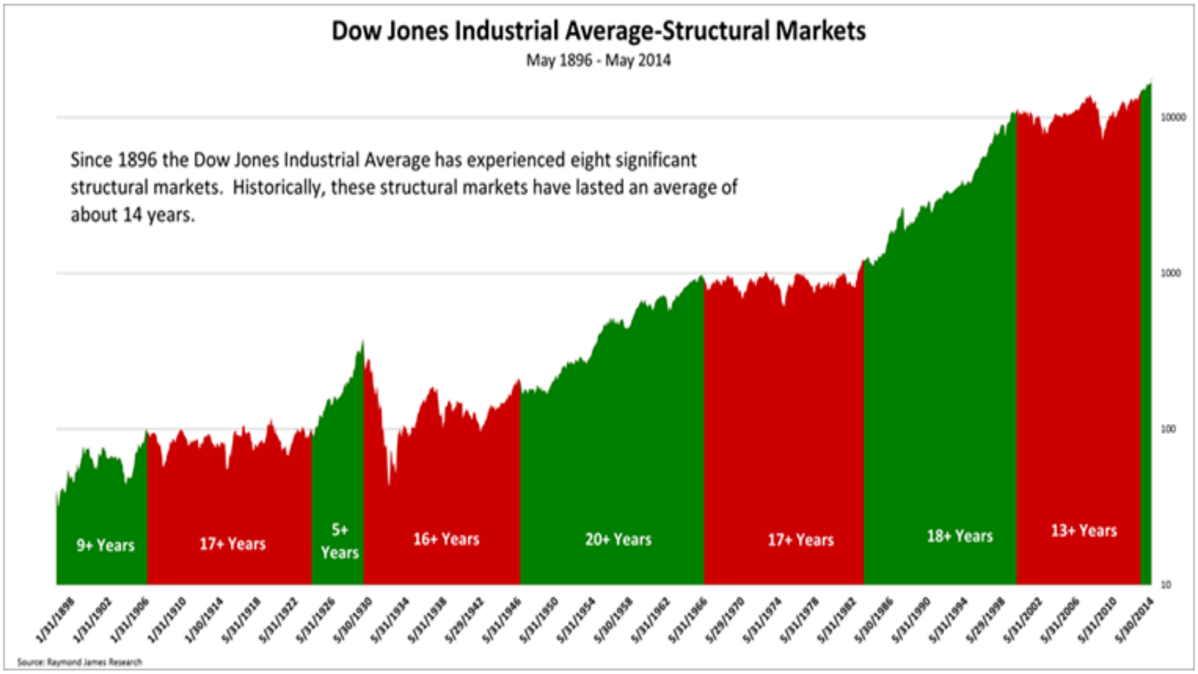
If Anais Nin is correct, investors must feel pretty good and thinking they will continue to feel this way going forward. Since our last quarterly missive, risky assets in general have increased their upward momentum and valuations have decayed within a context of historically low volatility.

As of the end of the quarter, the S&P 500 recorded the fifth consecutive month of gains and the second largest quarterly increase since 2009. Year to date, the equity index is up 6.1% with sectors such as airlines, pharma and utilities on the frontline. Energy Master Limited Partnerships and REITs have also put on great performances thanks to the equity momentum and the decrease in bond yields.

The short term view is as challenging, if not more, as it was when we wrote our market opinion three months ago. Valuations seem extended for the immediate future and the rising complacency evidenced by low volatility has rarely ended well. The short term view is certainly in contrast with the long term view which we continue to see as positive.

In our previous writings, we mentioned different elements that make us feel still positive for the long term (i.e. relative asset class value, still friendly global monetary policy, economic cycle) and in this letter we present one more chart that may help visualize our case. While we recognize that extrapolating future information by subjectively defining large economic cycles is always a risky bet, the following chart produced by Raymond James Research might indicate that the probabilities of still being in a longer cycle of equity re-valuations are not too discouraging.

269 South Beverly Drive, Suite 1204, Beverly Hills, CA 90212
T.310.867.2255 - F. 310.388.1455 - Web. www.thalassacapital.com



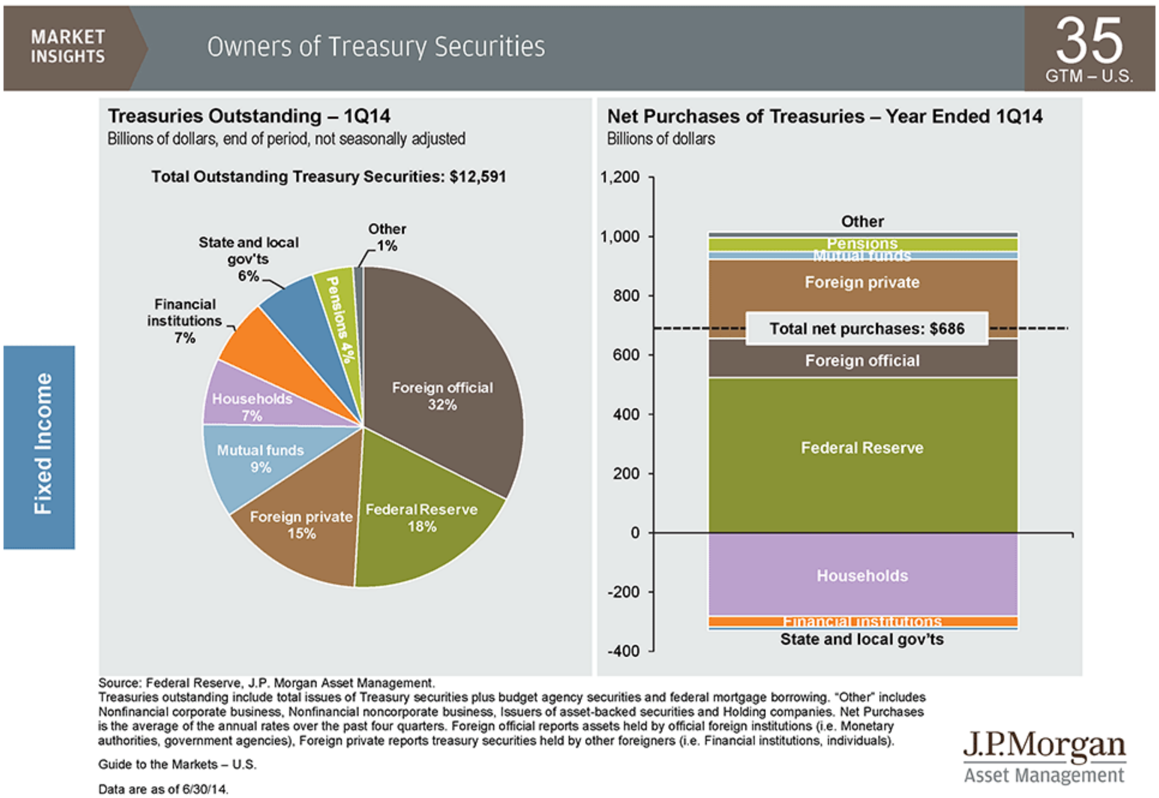
Source: Raymond James Research

Of course investors are generally unable to look for events they are not expecting, hence the large variety of "Black Swans Events" in financial markets history. To be cautious, we should ask ourselves what could go wrong this time around: a bond market crash, a housing debacle redux or just an old fashion recession.

Recent economic numbers on GDP were not too encouraging as the US economy seemed to contract more than expected; however, markets dismissed the slowdown and justified the numbers due to seemingly one-off factors such as the dreadful weather and changes to our healthcare system. While, the statistics were indeed puzzling, we tend to agree that the economy seems poised for growth as indicated by a still decent housing market and an ebullient energy sector.

On the subject of energy, we could envision macroeconomic problems arising in the future due to an unexpectedly fast rise in oil prices, a dynamic which almost invariably causes a recession. While domestic supply of oil is plentiful, dark clouds have been appearing on the global scene with, among other issues, a resurgence of violence in Iraq and a still undefined border between Ukraine and Russia. The possibility for such eventuality leads us to favor an energy overweight.

In regards to Fixed Income, we feel the intermediate threat of rising rates and inflationary pressures continue to make this asset class an inferior option. The following chart shows US Treasury holdings and net purchases for the first quarter of 2014. This clearly indicates the still artificial feel of the bond market as Central Banks continue to dominate the action.



Additionally, in line with our “smart diversification” philosophy, we show returns for a number alternative asset classes and a JPM comparison between an hypothetical traditionally allocated portfolio versus an hypothetical diversified allocation:

MARKET INSIGHTS

Alternative Asset Class Returns

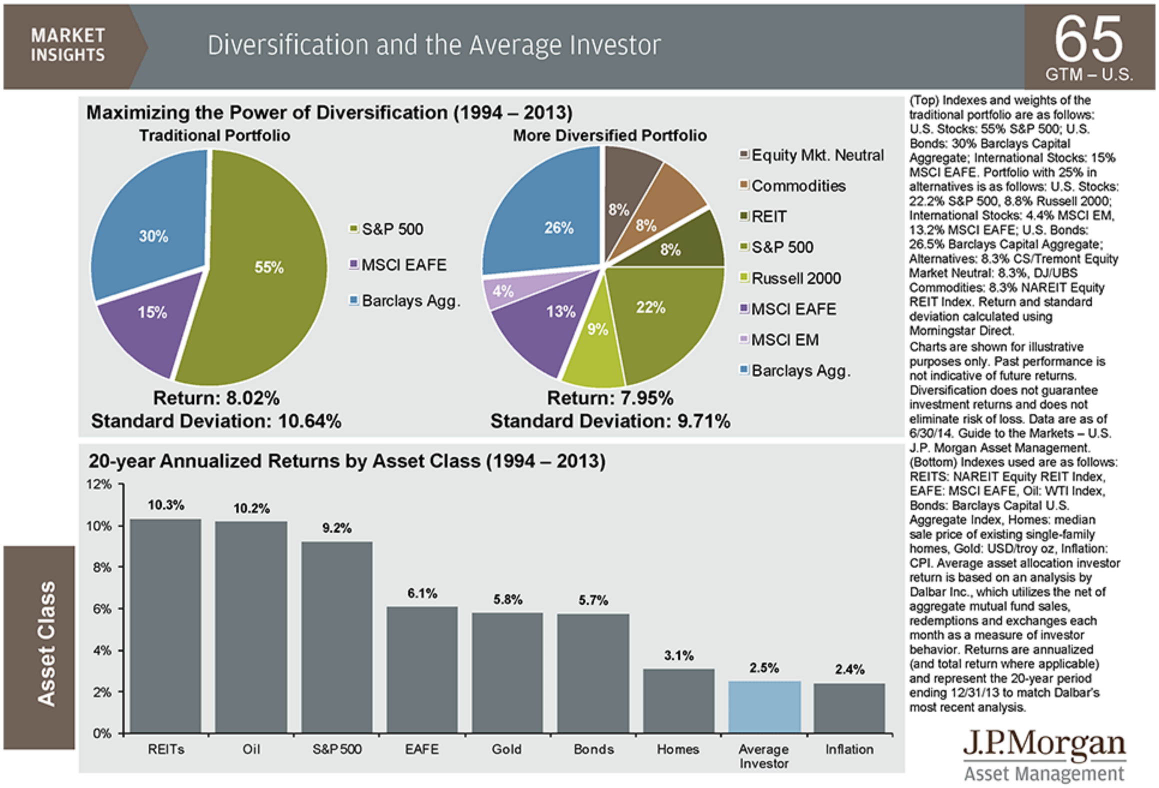
60
GTM – U.S.

Asset Class

2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	YTD	2Q14	10-yrs '04 - '13 Ann. Return	10-yrs '04 - '13 Ann. Volatility
Real Estate 35.0%	Private Equity 28.3%	Real Estate 35.6%	Private Equity 19.7%	Gbl. Macro 4.7%	MLPs 76.4%	MLPs 35.9%	MLPs 13.9%	Real Estate 18.0%	MLPs 27.6%	Real Estate 17.0%	MLPs 14.2%	MLPs 15.0%	Real Estate 25.4%
Private Equity 25.9%	Global Equity 17.4%	Private Equity 28.7%	MLPs 12.7%	Eq. Mkt. Ntrl. -3.0%	Global Equity 30.0%	Real Estate 26.7%	Private Equity 11.0%	Global Equity 16.5%	Global Equity 26.2%	MLPs 16.3%	Real Estate 7.2%	Private Equity 15.0%	MLPs 18.2%
Distrsd. 18.1%	Real Estate 13.7%	MLPs 26.1%	Gbl. Macro 11.4%	Mrgr. Arb. -6.7%	Real Estate 27.6%	Private Equity 20.4%	Real Estate 9.4%	Private Equity 14.0%	Private Equity 20.8%	Global Equity 5.7%	Global Equity 4.7%	Real Estate 8.5%	Private Equity 10.3%
MLPs 16.7%	Distrsd. 10.4%	Global Equity 17.0%	HF Agg. 11.0%	Rel. Val. -17.3%	Rel. Val. 23.0%	Rel. Val. 12.5%	Mrgr. Arb. 2.3%	Rel. Val. 9.7%	Distrsd. 15.1%	Distrsd. 5.4%	Rel. Val. 2.0%	Distrsd. 7.7%	Distrsd. 9.6%
Global Equity 12.0%	HF Agg. 9.1%	Distrsd. 15.3%	Rel. Val. 10.0%	HF Agg. -18.7%	Distrsd. 20.2%	Distrsd. 12.2%	Rel. Val. 0.8%	Distrsd. 8.5%	HF Agg. 9.6%	Rel. Val. 4.7%	Distrsd. 1.8%	Global Equity 7.3%	Global Equity 9.3%
HF Agg. 9.3%	MLPs 6.3%	Mrgr. Arb. 14.6%	Mrgr. Arb. 8.9%	Distrsd. -22.3%	HF Agg. 18.6%	Global Equity 11.1%	Distrsd. 0.0%	MLPs 4.8%	Rel. Val. 7.5%	HF Agg. 3.1%	Eq. Mkt. Ntrl. 0.9%	Rel. Val. 6.5%	HF Agg. 7.9%
Gbl. Macro 7.5%	Eq. Mkt. Ntrl. 6.1%	HF Agg. 13.3%	Global Equity 7.7%	Private Equity -22.4%	Private Equity 13.4%	HF Agg. 8.5%	Gbl. Macro -0.7%	HF Agg. 4.4%	Eq. Mkt. Ntrl. 6.4%	Eq. Mkt. Ntrl. 2.2%	HF Agg. 0.6%	HF Agg. 5.8%	Rel. Val. 6.8%
Rel. Val. 6.1%	Gbl. Macro 6.1%	Rel. Val. 12.2%	Distrsd. 6.8%	MLPs -36.9%	Mrgr. Arb. 11.9%	Mrgr. Arb. 4.6%	Eq. Mkt. Ntrl. -1.5%	Eq. Mkt. Ntrl. 3.1%	Mrgr. Arb. 5.3%	Mrgr. Arb. 1.6%	Gbl. Macro 0.1%	Mrgr. Arb. 5.0%	Gbl. Macro 4.9%
Mrgr. Arb. 3.7%	Mrgr. Arb. 5.5%	Gbl. Macro 8.2%	Eq. Mkt. Ntrl. 5.7%	Real Estate -37.3%	Gbl. Macro 6.9%	Gbl. Macro 3.2%	HF Agg. -2.0%	Mrgr. Arb. 1.8%	Gbl. Macro 0.1%	Gbl. Macro 1.2%	Mrgr. Arb. 0.0%	Gbl. Macro 4.5%	Eq. Mkt. Ntrl. 3.7%
Eq. Mkt. Ntrl. 3.4%	Rel. Val. 5.3%	Eq. Mkt. Ntrl. 7.0%	Real Estate -16.3%	Global Equity -39.2%	Eq. Mkt. Ntrl. -1.7%	Eq. Mkt. Ntrl. 2.5%	Global Equity -6.0%	Gbl. Macro -1.3%	Real Estate -0.5%	Private Equity -	Private Equity -	Eq. Mkt. Ntrl. 2.7%	Mrgr. Arb. 3.6%

Source: Standard & Poor's, Alerian, HFRI, MSCI, Cambridge Associates, NAREIT, FactSet, J.P. Morgan Asset Management.
Hedge fund indices include distressed and restructuring (Distrsd.), relative value (Rel. Val.), global macro (Gbl. Macro), merger arbitrage (Mrger. Arb.), equity market neutral (Eq. Mkt. Ntrl.), and the aggregate (HF Agg.). 2Q14 and YTD private equity data is unavailable and provided by Cambridge Associates.
Real estate returns reflect the NAREIT Real Estate 50 Index and global equity returns reflect the MSCI AC World Index. Annualized volatility and returns are calculated from quarterly data between 12/31/03 and 12/31/13.
Please see disclosure pages for index definitions. Guide to the Markets – U.S. Data are as of 6/30/14.

J.P.Morgan
Asset Management



In conclusion, at risk of being colorless, we still favor patience in expectations of better opportunities that undoubtedly will come.

Sincerely,

Youri Bujko and Davide Accomazzo