1 General Overview

Sunday, 5 July 2015

"If you have formed a conclusion from the facts and if you know your judgment is sound, act on it – even though others may hesitate or differ. You are neither right nor wrong because the crowd agrees with you. You are right because your data and reasoning are right."
- Benjamin Graham, The Intelligent Investor, 4th Edition, 1973

Dear Partners:

The Fund finished the second quarter of 2015 2,48% in the red, versus -4,16% for the MSCI World Index and versus -7,39% for the Eurostoxx 50. YTD we are up 5,57%. The Net Asset Value of the Fund is 210,02 (cf. part 2.3 for all the NAVs of all series). We currently have a 40,54% cash position.

Below are the results of the Tartaros Global Value Fund since its inception on the 21st of October 2008 (cf. part two for the fund overview); also shown is the return of a major market index (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)*

2015	*jan*	*feb*	*mar*	*apr*	*may*	*jun*	*jul*	*aug*	*sep*	*oct*	*nov*	*dec*	*ytd*
Fund	5,47	2,03	0,94	-0,26	-0,19	-2,41							5,57
Msci world	4,97	6,54	2,75	-1,99	2,29	-4,40							10,12

*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.
*Please note that individual investor net returns will vary due to the timing of one's investment. The 2015 results reported above are unaudited estimates and may be subject to change.

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	Tartaros	*EuroHedge Global Equity*	*Euro Stoxx 50 (excl. dividends)*	*MSCI World (excl. dividends)*	*Tradition Fund Low Risk*	*Traditional Fund High Risk*
2008	*6,30*	*-3,82*	*-6,21*	*-10,90*	*-7,28*	*-19,78*
2009	*45,52*	*10,72*	*21,00*	*22,67*	*12,91*	*28,05*
2010	*32,64*	*4,87*	*-5,85*	*18,11*	*6,59*	*14,30*
2011	*-2,98*	*-6,16*	*-17,05*	*-4,59*	*-2,95*	*-12,27*
2012	*0,55*	*3,73*	*13,79*	*10,95*	*7,72*	*12,74*
2013	*-5,88*	*10,97*	*10.59*	*17,62*	*3,69*	*12,11*
2014	*5,63*	*2,51*	*1,20*	*18,06*	*7,73*	*11,35*
Annualized	*11,64*	*3,50*	*3,01*	*10,59*	*4,32*	*6,12*
Cumulative	*99,00*	*23,65*	*20,38*	*87,60*	*20,96*	*30,19*
80% of traditional funds underperform 0.5% of traditional funds outperform more than 3% over the very long term						

Greece?

source: http://www.economist.com/blogs/graphicdetail/2015/06/greek-crisis-economists-covers

As the weekly publication, The Economist summarizes: "For a relatively small country it is a rare distinction (or misfortune) to make the cover of *The Economist*. Greece, however, has managed the feat no less than seven times over the past five years. It first made the grade in May 2010 as its sovereign-debt crisis spiralled out of control. Frequent trips back to the brink of disaster have been responsible for repeat cover performances, as has the occasional bail-out or election. One suspects there may be more covers to come, though not too many, we hope; our stock of available metaphors is looking as depleted as Greek bank vaults."

Greece is a perfect example of our "We worry top-down, but we invest bottom-up" approach. The biggest risk to an investment is a Grexit – we worry top-down about a harsh recession and currency implosion by a Grexit – and at the moment we – and nobody else – have no way of knowing if this is going to happen, or even more importantly do we think that we are at the moment adequately compensated for taking that risk! But rest assured, we not only have an eye on the news headlines, but also have a few Greek companies – we invest bottom-up – on our watch list and we will invest when we feel the risk-reward opportunity is on our side! If we cannot get comfortable with that risk-return assessment, we will just move on and live to fight – read: invest – another day!

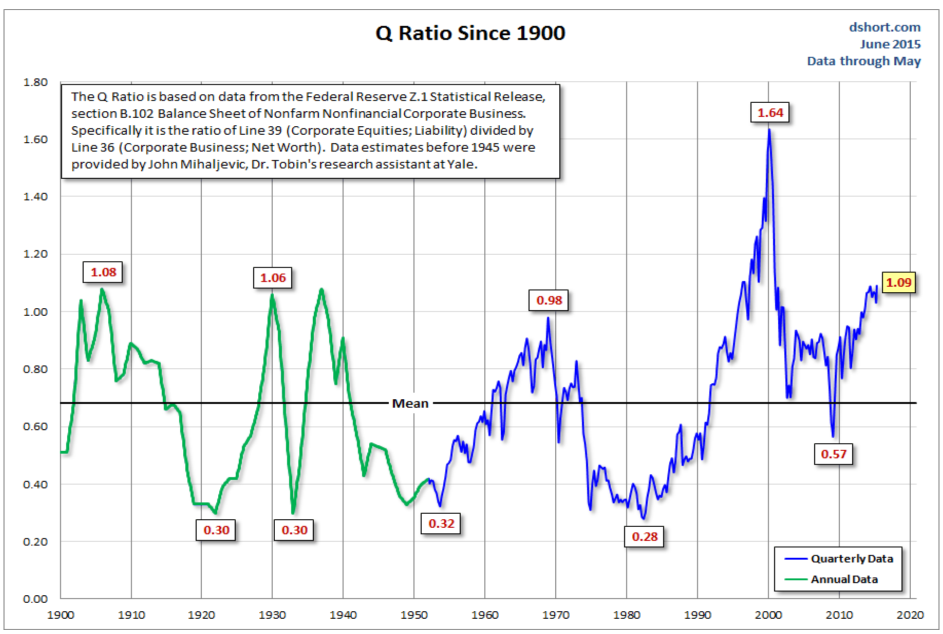
In any case, if you would really press us to hear our opinion on Greece, our answer would be the following. Greece has so far relied on two bailouts from the Eurozone and the International Monetary Fund: the May 2010 loans worth 110 billion euros, and the February 2012 bailout worth 140 billion euros, for a total of 240 billion euros. The total size of the Greek economy is 238 billion euros. How do you suppose that will ever get repaid?

A picture says more than a thousand words.

For those who believe that a picture says more than a thousand words, we actually have a few of them!

(1) The Q-Ratio

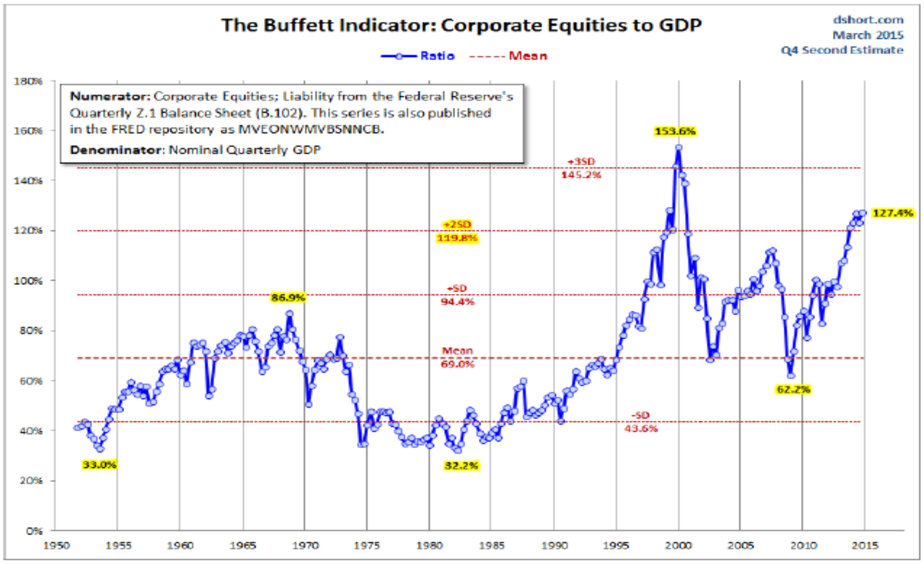
The Q Ratio is the total price of the market divided by the replacement cost of all its companies.



source: http://www.advisorperspectives.com/dshort/

(2) The Buffett Indicator

Market Cap to GDP is a long-term valuation indicator that has become popular thanks to Warren Buffett. Back in 2001 he remarked in a Fortune Magazine interview that "it is probably the best single measure of where valuations stand at any given moment."

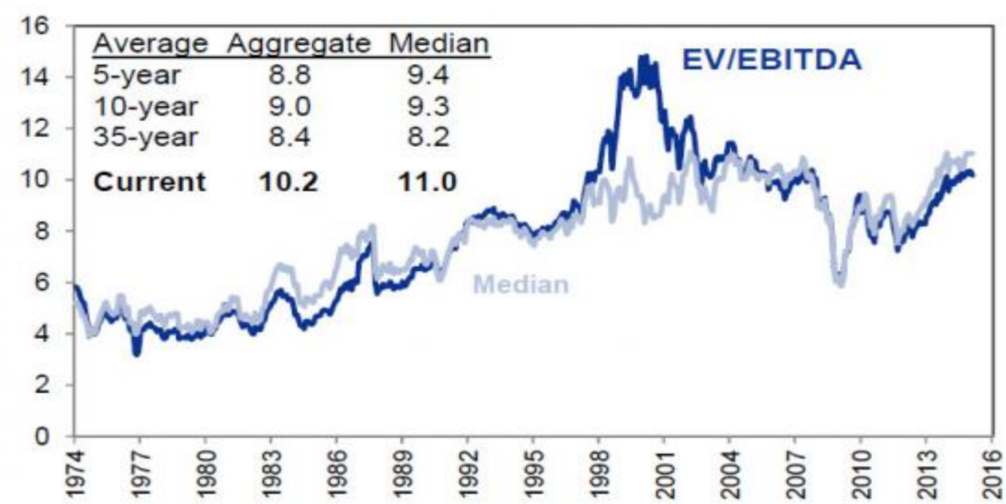


source:

http://www.advisorperspectives.com/dshort/

(3) EV/EBITDA valuation level

Exhibit 2: The S&P 500 is trading at historically elevated valuations
as of February 19, 2015



Source: Compustat and Goldman Sachs Global Investment Research.

source: http://www.zerohedge.com

Stocks with attractive valuation are very rare in the current environment of elevated market prices. According to Goldman's chief strategist David Kostin the aggregate S&P 500 trades at 17.3x forward EPS and 10.2x EV/EBITDA; the only time during the past 40 years that the index traded at a higher multiple was during the 1997-2000 Tech Bubble; the median stock sports a P/E and EV/EBITDA of 18.0x and 11.0x, respectively; these valuations rank in the 99th percentile of both P/E and EV/EBITDA multiples since 1976.

We would like to stress that all these valuation indicators are not useful as short-term signals of market direction. Periods of over- and under-valuation have lasted and can last for many years. Yet long-term investment outcomes remain chiefly defined by those valuations. Current market overvaluation continues to suggest very guarded return expectations.

In defense of cash or the optionality of cash!

“Some argue that holding significant cash is gambling, that being less than fully invested is akin to market timing. But isn’t a yes or no decision the crucial one in investing? Where does it say that investing means always buying something, even the best of a bad lot? An investor who can’t or won’t say no forgoes perhaps the most valuable tool available to investors. Charlie Munger, Warren Buffett’s long-time partner, has counseled investors, “Look for more value in terms of discounted future cash flow than you’re paying for. Move only when you have an advantage. It’s very basic. You have to understand the odds and have the discipline to bet only when the odds are in your favor.”

Investors expect corporate managements to make carefully reasoned decisions, such as whether or not to commit their capital to build new factories, hire additional staff or acquire a competitor. A corporate management that invested capital at low expected returns just because they had the funds at their disposal and nothing immediately better to do would inevitably arouse investor ire. Why, then, should any investor (hedge fund, mutual fund or individual) always deploy 100% of their capital into marketable securities, applying none of the analytical rigor or intellectual honesty they would demand of the underlying corporate managements? As we said last year, why should the immediate opportunity set be the only one considered, when tomorrow’s may well be considerably more fertile than today’s.”
- Seth Klarman, Baupost Limited Partnerships’ 2004 Year End Letter

Just like Warren Buffett and Seth Klarman – them again – cash is for us more than just an asset class returning very little – today unfortunately even nothing – on its investment. We think of cash differently than conventional investors. Cash is a call option with no expiration date, an option on every asset class, with no strike price. This insight is fundamental to our investment strategy!

James Montier calls cash the easiest, and most underrated source of tail risk protection. Cash should always be the default option! The alternative to the ever-rising relative performance pressures is thus to hold cash and wait for the market prices of at least some investment securities to drop. One does not need the entire stock market to become cheap make investments, just a limited number of investment opportunities are enough (cf. infra Changes in the Fund’s Portfolio).

Today, cash yields less than zero in real terms. In 1999-2000 and again in 2006-2007, you could stay away from equities, remain in cash and get paid almost 2-3% in real terms. That is the huge difference!

The question that every investor should ponder is how much do you let this negative real cash rate influence your investment decisions. One of the central tenants of value investing is to be extremely unemotional in the evaluation of potential investments. But the investment public at large, more than ever manipulated by the central banks, will always act like lemmings – and we know what happens to them in the end – and are willing to own even more equities, even at the current nose-bleed valuation levels...

Few like us acknowledge that holding cash is costly, but also know that the danger of owning equities that are way too expensive will prove much worse. Again, the penalty for holding cash is not that substantial when compared to the current likelihood of permanent loss of capital. In cash, at least, we know our downside!

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In the end, we should heed Benjamin Graham's advice: "You are neither right nor wrong because the crowd agrees with you. You are right because your data and reasoning are right." Even if you look wrong for an uncomfortably and always too long time!

Conservatism rules the day!*

What is an absolute value manager supposed to do when markets go from expensive to very expensive levels, while everyone believes that the central banks have their backs and that what goes up will continue to go up, despite ever-rising valuation levels? While the incentive for any conventional investment manager is to invest even more or just stay fully invested, in the wake of absolute or relative underperformance, that is a course of action we will not follow.

The realities of the investment industry (career risk, relative performance risk, institutional imperative) have never enticed us to take on more risk just for the sake of it! We will wait for the right investment opportunities and continue to practice the unconventional, but conservative investing that has served us well in the past. We are stewards of your and our – since the start of the Fund we have never decreased our large personal stakes in the Fund, on the contrary, we have increased them – capital. So conservatism has and will always rule the day here!

Prem Watsa, the CEO of the Toronto-based Fairfax Financial, a 35 USD billion insurance company, and also known as the Canadian Warren Buffett, clearly understands both the importance of conservatism in investing and both the psychological pain of implementing it well in advance of others. He offered the following insights in his 2013 letter to shareholders (source: www.mcmadvisors.com) :

> *In this environment, with zero interest rates and high debt levels prevailing in most developed countries, giving them limited flexibility to react to unintended consequences, we think it is prudent to have a very strong balance sheet with a large cash position and to be protected on the downside. When problems hit, only those with cash and very liquid assets can take advantage of them. While it is very painful and costly waiting, we think your (and our!) patience will be rewarded. We are reminded again of the warning from the distant past from our mentor, Ben Graham, which I have quoted before: "Only 1 in 100 survived the 1929-1932 debacle if one was not bearish in 1925." We continue to be early – and bearish!*

Of course, being part of the crowd ensures an acceptable mediocrity; investing independently runs the risk of temporary, but sometimes very uncomfortable (absolute and relative) underperformance. The greatest challenge for every value investors is maintaining the required discipline and patience. This means that from time to time – more often than not – you have to be willing to stand apart from the larger investment community, opposing the prevailing news headlines, and challenging and countering the prevailing investment theories and stories. It can be a very lonely undertaking, but you cannot take the same investment decisions as everyone else and expect to outperform over the long run!

> *A more basic kind of psychological problem, however, is inherent in the simple maxim of buying in low and selling in high markets. The practice might be easy if the market were something impersonal. Actually it is people generally who make high and low markets, because they are optimistic (and greedy) in high markets and pessimistic (and disgusted) in low markets. How can you—the general reader representing the public at large—be expected to act otherwise than the public acts? Does not this mean that you are doomed, by some laws of logic, to buy when you should be selling and to sell when you should be buying?*
>
> *This point is vital. The investor cannot enter the arena of the stock market with any real hope of success unless he is armed with mental weapons that distinguish him in kind – not in a fancied superior degree – from the trading public ... But, if the investor intends to buy and sell recurrently, his weapons must be a frame of mind and a principle of action which are basically different from those of the trader*

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and the speculator. He must deal in values, not in price movements. He must be relatively immune to optimism or pessimism and impervious to business or stock market forecasts. In a word, he must be psychologically prepared to be a true investor and not a speculator masquerading as an investor. If he can meet this test, he will be a member not of the public at large but of a specialized and self-disciplined group.
- Benjamin Graham, The Intelligent Investor, 4th Edition, 1973

Unconventional investment behavior – a necessary, but not sufficient requirement – is the only road to superior investment results, but it is clearly not for the faint of hearted. In addition to discipline and patience, successful investing requires also requires the ability to survive investment makes – and we all make them – but also to look wrong for some time. Each person has thus to evaluate whether he's temperamentally equipped to do these things and whether his circumstances – in terms of fund partners and the impact of other people's opinions – will allow it. (cf. Howard Marks and Dare to be great II in the 2014 Q2 Tartaros Investment Letter) And if you meet this test, then and only then you will be a member of Benjamin Graham's specialized and self-disciplined group!

Taking all of the above into account and with your continued trust, our goal thus remains the same: first focus on avoiding permanent impairment of capital and only then trying to earn the best return we can.

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

In the past quarter, we made two new investments; we are still in the process of trying to build meaningful positions at reasonable valuation levels in both companies. One of them is a software provider for the Japanese healthcare industry. The other one is a Hong Kong based and listed, holding company active in property investment & development (hotels and commercial buildings). More on both of them in one of the next investment letters!

The liquidation process of the media holding company Rella is nearing its end. Rella has completed the sale of its entire holding of B-shares in Aller Holding and has received the proceeds for the sale of DKK 1.772.130.000 from Aller Holding. Completion of the liquidation of the company with the distribution of the net liquidation proceeds to the shareholders will take place shortly after the approval at the final extraordinary general meeting has been obtained in August 2015. The net liquidation proceeds are expected to amount to approximately DKK 77,5 per share.

In the previous investment letter we mentioned that Conwert SE, the majority shareholder (76% stake) of KWG Kommunale Wohnen, received an unsolicited take-over offer. The take-over proposal by Deutsch Wohnen expired unsuccessfully, when its acquisition offer was rejected by most of Conwert's shareholders. Subsequently, Teddy Sagi's MountainPeak Trading signed an agreement with the Haselsteiner Foundation and Albona Limited to buy a 24.8% stake in the property group Conwert. Teddy Sagi stated that Conwert has recently suffered from internal disputes between shareholders and a dispute in management, which have affected its business results. His goal, as a majority shareholder, is to turn this situation around.

Next update

You should receive the next investment letter by the middle of October at the latest. In the meantime, please email or call us with any questions or comments you have.

As always we appreciate your continued trust!

The Tartaros Team

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2 Fund Overview

2.1 General Overview (end of Q2 2015)

	Asset Class
Equities	57,71%
Corporate Bonds	1,75%
Cash	40,54%
	100,00%

	Geography
Americas	75,20%
Europe	12,93%
Asia	11,87%
	100,00%

	Currencies
USD	46,64%
EUR	30,05%
CAD	11,83%
GBP	0,00%
YEN	2,48%
HKD	6,56%
DKK	2,44%
	100,00%

	Industry (as % of Fund)
Mining	7,11%
Services	4,35%
Pharma	0,58%
Energy	2,84%
Telco & Info	4,59%
Basic Industries	10,11%
Mining Services	0,79%
Retail-Wholesale	10,24%
Real Estate	17,10%

2.2 Fund Positions

We have no short positions and no leverage. We are invested long in 28 positions.

The portfolio is invested in companies across a range of market capitalizations:

Market Capitalizations in USD	*% of equities invested*
> 5 Billion	11%
1< 5 Billion	18%
0,5 < 1 Billion	7%
< 0,5 Billion	64%

Position	*% of portfolio*
Cash	40,54%
Investment 1	7,30%
Investment 2	5,88%
Investment 3	5,02%
Investment 4	4,74%
Investment 5	4,66%

It should be noted that all numbers are approximations.

2.3 NAV series

Série A 1 LEAD	210,02
Série B 3 31/12/10	102,36
Série C 5 31/03/11	99,92
Série D 7 30/06/11	106,54
Série E 9 30/09/11	111,98
Série F 13 31/12/11	105,50
Série G 15 31/03/12	103,98
Série H 17 30/06/12	109,47
Série I 19 30/09/12	100,52
Série J 21 31/12/12	104,93
Série K 23 31/03/13	106,12
Série L 25 30/06/13	115,43
Série M 27 30/09/13	110,21
Série N 29 31/12/13	111,49
Série O 31 31/03/14	108,67
Série P 33 31/03/15	97,16

***inspired by Michael Burry!**

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