1 General Overview

Tuesday, 10 April 2012

"An expression from the broadcasting booth that's relevant to investing relates to the need to avoid pushing too hard. "Playing within yourself," they call it. It means not trying to do things you're not capable of, or things that can't be accomplished within the environment as it exists…. We simply cannot create investment opportunities when they're not there…. If it's not there, hoping won't make it so. All we ever can do is take what they give us."
- Howard Marks, "What's Your Game Plan?" (September 2003)

Dear Partners:

The Fund finished the first quarter of 2012 1,47% in the plus, versus 7,48% for the MSCI World Index (in €) and versus 6,94% for the Eurostoxx 50 (cf. graphs attached to email). The Net Asset Value of the Fund is 201,99. We currently – including new inflows – have a 42% 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)*

2008	*jan*	*feb*	*mar*	*apr*	*may*	*jun*	*jul*	*aug*	*sep*	*oct*	*nov*	*dec*	*ytd*
Fund										5,36	-3,82	4,89	6,30
Msci world										1,11	-6,50	-5,75	-10,90
2009	*jan*	*feb*	*mar*	*apr*	*may*	*jun*	*jul*	*aug*	*sep*	*oct*	*nov*	*dec*	*ytd*
Fund	8,54	-2,06	2,80	10,62	9,59	-3,94	4,45	0,27	2,60	-0,50	4,53	2,32	45,52
Msci world	-1,05	-9,25	1,91	11,18	2,28	-0,87	8,34	2,93	1,27	-2,97	2,33	6,05	22,67
2010	*jan*	*feb*	*mar*	*apr*	*may*	*jun*	*jul*	*aug*	*sep*	*oct*	*nov*	*dec*	*ytd*
Fund	-3,21	5,62	1,96	5,19	-0,68	-0,32	-3,89	4,8	2,63	2,18	10,45	4,74	32,64
Msci world	-1,17	4,19	6,64	1,07	-2,47	-3,34	1,74	-1,29	1,37	2,08	4,11	4,33	18,11
2011	*jan*	*feb*	*mar*	*apr*	*may*	*jun*	*jul*	*aug*	*sep*	*oct*	*nov*	*dec*	*ytd*
Fund	-3,87	4,63	1,85	-1,72	0,29	-4,84	2,58	-1,53	-6,51	1,74	4,99	0,11	-2,98
Msci world	-0,27	2,27	-3,83	-0,57	0,76	-2,16	-0,56	-8.48	-2.45	6,33	1,49	3,58	-4,59

2012	*jan*	*feb*	*mar*	*apr*	*may*	*jun*	*jul*	*aug*	*sep*	*oct*	*nov*	*dec*	*ytd*
Fund	3,61	-0,37	-1,71										1,47
Msci world	3,04	2,52	1,74										7,48

*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 2011 results reported above are unaudited estimates and may be subject to change.

Are the odds in our favour?

"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 favour."
- Charlie Munger

Our somewhat tepid first quarter performance is the result of holding a large cash hoard (because we do not find a lot of bottom-up investment opportunities and because we are very mindful of still looming top-down risks), of having a set of "macro" investments which have been doing nothing for us lately, and a set of value investments that in the long run should move independently of the general stock market (e.g. American Dental Partners in the 2011 Q4 investment letter).

We will be going through periods where our investment portfolio does not work well, or better, does not appear to work well. The key is to stay disciplined and not to take risks that can cause permanent loss of capital on a portfolio level. No particular strategy works every single quarter or even every single year. Our focus, even in strongly rising markets, will always remain on the downside. The upside should, in the long run, take care of itself.

We like cash because of its "option value": money remains available until other assets become cheaper. This opportunity value should trump the near-zero yields (negative yields in real terms) cash offers now. We want to stress that, although our macro view remains one of concern, we will stay focused on finding bottom-up, low-risk investment opportunities. Obviously, giving our large cash balance, we would prefer the markets to go down substantially, because at lower market levels significant macro and micro risk would be better priced in. Unfortunately, this would also mean that the Fund would suffer near-term quotational losses. Although we would like to have it both ways (markets goes down, Fund stays flat), in the investment world, just as in the real world, it almost never works that ways. So rather than hope for the best, we prefer to prepare for the worst.

We get the feeling that it only took two quarters of strong market returns for the traditional investment community at large to see the world through rose-colored glasses again. Everybody always seems "happy" and ready to invest, after the market has risen. One of our investment partners told us in March that his investment advisers seemed to be feeling positive again about the equity markets, and that they were advising him to increase his exposure to the equity markets (they always talk about general market levels and never about individual investment opportunities). We do not need to remind you that they compete on the basis of short-term relative investment performance. They prefer to follow the herd (they are the herd). We prefer to stand apart… but only based on bottom-up and top-down investment considerations.

We believe that unprecedented (ad-hoc!) government policies, based on unprecedented economic challenges, will continue to create an investment environment of extreme market volatility. Case in point: it only took a couple of days in the second quarter for the European stock markets (cf. Eurostoxx 50) to give back more than half of the gains of the just finished first quarter; and just because Spain suddenly popped on everybody's radar screen!

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The global economic environment remains very complicated. Being fully invested today is all about taking high absolute risk in an environment where it is also very difficult to find cheap assets and cheap insurance. The global economy still faces major headwinds:

- Europe as a whole is starting to live the paradox of thrift. Greece went through an orderly "first" default and seems to be off the radar screen, for now! The European Central Bank pumped liquidity (what's another trillion euros?!) into the system, and European bond yields declined during the first quarter of this year. We believe that a long recession precipitated and/or exacerbated by government austerity is the base case, and that the PIIGS (we are only a couple of days in the second quarter and all of a sudden the markets seem to have discovered "not so sunny" Spain) might still cause a disorderly break-up of Europe.
- The U.S. economy and the U.S. housing market both have been showing some positive signals but large uncertainties still remain: e.g. U.S. budget deficits, very weak job recovery, fiscal cliff at the end of this year, etc.
- The Chinese economy and the China growth miracle seem to be one big black box. The Chinese economy is clearly "landing" but it is far from clear if it is going to be a soft or hard landing. Some of the smartest people we know of have very dim views. A lack of clear economic direction from China is the base case for now, but we believe that the economic risks are to the downside.
- Middle East tensions seem here to stay. An attack on Iran's nuclear facilities would lead to a jump in oil prices and further instability in the region.
- Profit margins for corporations are at an all time high in a data set that extends back to the 1950s (cf. 2012 March White Paper – What Goes up Must Come Down). In order for corporate profit margins to stay at these elevated levels there either must have been a fundamental change in the economy ("it is different this time") or they will eventually mean revert. If the law of diminishing returns still holds, the height of profit margins today will be balanced out in the future by much lower returns.

Death of a non-salesman -The passing of a truly contrarian investor

(The following excerpt is from The Economist print edition, 17 March 2012)

Walter Schloss was never a face on financial television programmes. Nor was he known for marketing his skills to investors (he was indifferent to collecting clients and only 92 managed to sign on). His death last month, at the age of 95, garnered little public comment but among a certain crowd it meant the loss of a mind that was courageous, independent and utterly distinct from much of modern finance.

Mr Schloss was part of a small group who worked with Benjamin Graham, a Columbia Business School professor whose most famous disciple is Warren Buffett. Mr Schloss did not spend time tailing corporate managers. His research team doubled in size when his son joined. He favoured discarded "cigar butt" stocks that could be swept off the floor. Often, they weren't worth much but they sold for far less.

As for high-flying shares, he was not afraid to go short. During the late 1990s, when a "new era" caused many people to throw out any normal valuation measures as hopelessly obsolete, Mr Schloss stayed firm and bet against some of the most popular and inflated names.

In part, he could do so because of a famously frugal cost structure. In part, he was protected by an extraordinary long-term record. When he ceased managing money for outsiders, his returns were reported to have averaged 16% annually, six percentage points higher than the market. He had other tactics, too. In 1999, when his portfolio was composed of everything no one wanted, he was asked how, even if his own convictions were unshaken, he could ensure that his investors stuck with him. Being a true contrarian required just one rule, he said: "Never tell a client what they own."

We have the time…

"You have the watches. We have the time."
- Attributed to an Afghan fighter

Patience is about as fundamental to the investment objective as anything we can think of. Of course everybody claims to be a patient investor, but when the time comes to be patient the claim never stands up to reality. Warren Buffett has always stressed the importance of just sitting still and doing nothing. In clarifying the essence of his investing discipline, he stresses the importance of "lethargy, bordering on sloth". In that respect, we are extremely lucky to have each one of you as an investment partner. Everybody preaches long-term investing, but only very, very few people actually practice it.

Everybody is looking at his or her investment watch again (the unstoppable focus on quarterly and monthly (!) performance), while we are biding our time. They have the watches. We have the time. Do you?

Housekeeping and next update

You should receive the next investment letter at the beginning of July.

Please email or call us with any questions or comments you have!

We would like to welcome three partners and we are, as always, thankful for your continued support!

The Tartaros Team

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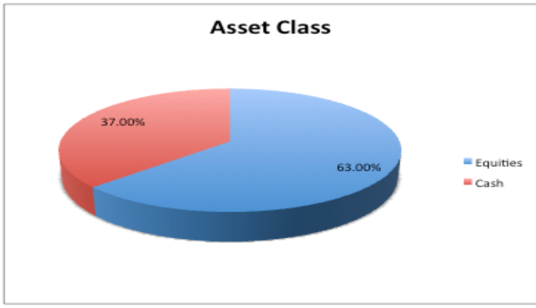
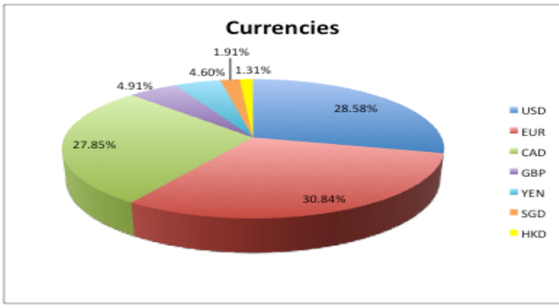
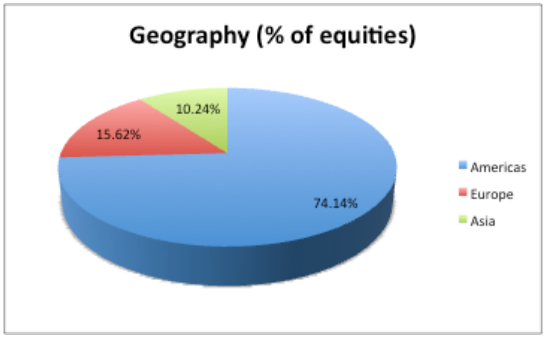
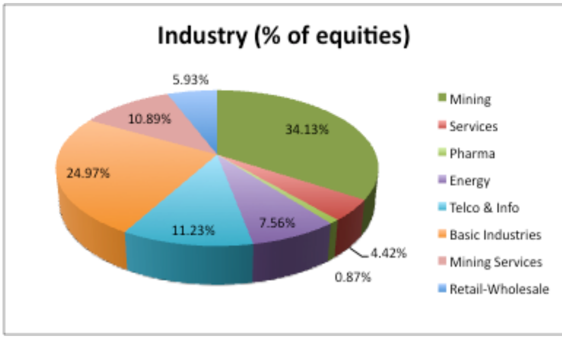
2 Fund Overview

2.1 General Overview (end of Q1 2012)









2.2 Fund Positions

We have no short positions and no leverage. We are invested long across 32 investment positions.

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

Market Capitalizations in USD	*% of equities invested*
> 5 Billion	13%
1< 5 Billion	25%
0,5 < 1 Billion	6%
< 0,5 Billion	56%

Position	*% of portfolio*
Cash	37%
Investment 1	4,67%
Investment 2	4,63%
Investment 3	3,94%
Investment 4	3,93%
Investment 5	3,62%

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We sold the following investments:

Disinvestment	*Entry Price*	*% of Portfolio*	*Return*	*Annualized Return*
Fujian Zhenyun Plastics	0,39 sgd	0,12%	-68%	-34%

It should be noted that all numbers are approximations.