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1 General Overview

Thursday, 5 July 2012

“Value investing doesn’t always work. The market doesn’t always agree with you. Over time, value is roughly the way the market prices stocks, but over the short term, which sometimes can be as long as two or three years, there are periods when it doesn’t work. And that is a very good thing. The fact that our value approach doesn’t work over periods of time is precisely the reason why it continues to work over the long term.”

- Joel Greenblatt (as quoted in the book *Hedge Fund Market Wizards*)

Dear Partners:

The Fund finished the second quarter of 2012 -5,18% in the red, versus -0,16% for the MSCI World Index (in €; the usd made a big difference) and versus -8,58% (after the index jumped more than 4% last Friday) for the Eurostoxx 50 (cf. graphs attached to email). The Net Asset Value of the Fund is 191,52. We currently have a 44% cash position.

Last Friday the markets all literally jumped up, because Herman Van Rompuy and his cohort was so kind to stay up late and make a statement very early in the morning. Only two weeks ago we were close to zero percent line with respect to the ytd performance, and all the stock markets were deeply in the red. Everything changed in a couple of days: the financial market indices, not the economic reality. Just to show how volatile things are these days: the Fund is already up 2,85% just three days into the third quarter.

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

2012 Quarter 2 – Investment Letter

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	-1,46	-3,58	-0,21							-3,79
Msci world	3,04	2,52	1,74	-0,41	-2,64	2,97							7,30

*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.

Price rather than time!

We can be very patient. (No matter how great the talent or effort, some things just take time: you can't produce a baby in one month by getting nine women pregnant)

- Warren Buffet

In the 2012 Q1 letter to the partners (written a couple of months ago; although it seems just a couple of weeks ago) we wrote: “We believe that unprecedented (ad-hoc!) government policies, based on unprecedented economic challenges, will continue to create an investment environment of extreme market volatility.” We also stated the following: “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.” Unfortunately, we were right on both accounts. The equity markets started their decline in April and continued to fall in May. And the Fund also suffered quotational losses. To add some colour we have attached (cf. email) some of the Fund's investment positions.

"We will. We will not. We are in the process of. We have not yet proposed. We have agreed. We have not discussed. We are open to. We reject. There will be a grace period. There will be no delay. Greece will have to comply with the terms agreed by its predecessors. We are willing to reconsider the terms. We back Eurobonds. We reject Eurobonds. We are considering Eurobonds. There is no discussion of Eurobonds. The loans/credit/paper will be distributed thru the ESM. They will be distributed thru the EFSF. We don't know, but we think it will be the ESM. Publicized meeting in Rome, quiet meeting in Luxembourg, another summit at month-end. You get the picture. You don't get the picture. Let's have a meeting and see what we all think about the picture. Next year."

- Joan McCullough about the lack of clarity in political Europe (as mentioned in the weekly Thought from the Front Line email)

Although some of you expect us to have something new to say every quarter, we have to disappoint you. We fear that the same problems will be with us for many more years to come (e.g. Euro Summit number “we have lost count” does not solve the problems). It took a couple of decades to build this mountain of debt and it will also take a lot of time to get out of this mess. So – on the economic front – expect more of the same: some economic austerity in combination with lots of political posturing and gluts of money printing, resulting in lots of financial market volatility. Or as David Rosenberg recently – 11 June 2012 – stated: “The secular forces of deflation continue to bump against the forces of government reflationary interventions, generating heightened market volatility along the way.” In any event, it would be advisable for investors to abandon the illusion that there is somehow an easy fix just around the corner. Through all this, the task stays the same: be cognizant of the top-down issues, but always look for bottom-up opportunities. Or to put it differently: always price, rather than time, investments!

Take two aspirins.

“Techniques shrouded in mystery clearly have value to the purveyor of investment advice. After all, which witch doctor has ever achieved fame and fortune by simply advising, “Take two aspirins”?”

- Warren Buffett

A couple of weeks ago we read an article in the May issue of GQ about the man who hacked Hollywood; a story about a guy who had stolen sexy, private (of course) pictures of celebrities from their smart phones and email accounts. Immediately, we conjured up this image of this I.T. whizz kid who had probably developed this magic I.T. formula to break into the electronic lives of all these celebrities. Oh, how wrong we were!

Chris Chaney never wanted to become famous as The Man Who Hacked Hollywood. In the beginning at least, he was just a 33-year-old loner looking for something to do. Two years unemployed, he lived in a rundown brick house in a middle-class neighborhood in Jacksonville, Florida, where the streets are named for fairy tales: Cinderella Road, Peter Pan Place. He'd spent his entire life in this same area, had never flown on a plane or traveled beyond the occasional trip to see family in Iowa or Alabama. His parents separated when he was 4, and during his freshman year in high school he moved into this house near Mother Hubbard Drive with his grandmother. Taking a room hardly bigger than his bed, he hung a Fight Club poster on the wall, stacked his DVDs in the corner, lined up his He-Man dolls below the television, and called it home.

One night in early 2008, while his grandma slept, the balding, 290-pound Chaney was idly surfing movie sites like Ain't It Cool News when he stumbled on the latest celebrity scandal. Stolen pictures had leaked online of Miley Cyrus posing half-dressed, her midriff exposed. Chaney sparked a clove cigarette and considered the story. He couldn't have cared less about the Miley shots themselves. What intrigued him was the guy who stole them. How'd he do it? Chaney wasn't a hacker; he didn't even own a computer until his late twenties and couldn't write a lick of code. But he'd always loved solving puzzles—completing crosswords, shouting out answers to Jeopardy! This was a tantalizing new riddle: "I was like, 'How hard could this be if it's happening all the time?' "

What Chaney lacked in technical skills, he made up for in effort. Finding a working e-mail address was a simple process of trial and error. In a Word document, he made a list of random celebrities and, one by one, entered them into Gmail—first name followed by last—until, days later, an address was finally accepted. (In the blur of celebs to follow, he wouldn't be able to recall his first.) Unlocking the account, he knew, would be more difficult. To retrieve a lost password, sites often ask subscribers so-called challenge questions: What's your mother's maiden name? What's your place of birth? Or, in the case of this celebrity, what's your pet's name? It was widely known that the hacker who broke into Paris Hilton's phone had done it with her Chihuahua's name, Tinkerbell. If her dog's name was easily available online, so too, Chaney figured, were other clues.”

Chaney found what he was looking for on the Internet Movie Database (IMDB). After punching in the pet's name, he watched in awe as the star's private e-mails poured down his smudgy PC screen. "I don't want to compare it to throwing a touchdown pass," he says, "but it was a rush." He quickly scrolled through the contact list, cutting and pasting the e-mails of anyone he recognized into a separate file: actresses, actors, athletes—“It was pretty much anyone with a name," he says. He then set the victim's account to forward a copy of every e-mail to him, so even if the celeb reset the password, the e-mails would keep coming in.

Chaney eyed his in-box. He'd get to reading the messages in good time, but for now he wanted to crack more addresses. "You find the right pieces," he says, "and then it unlocks." There were favorite colors to ascertain. Elementary-school names. Social Security numbers. Chaney became an expert. He found old school names on Classmates.com, friends on Facebook, and hometowns on free directories like Intelius. "If

they've had their names removed, their parents are probably still on there," he says. Before long, he had total access to e-mail accounts of stars including Mila Kunis, Busy Philipps, Ali Larter.

And still without work and living with the help of his mom and stepdad, he had plenty of time to read through their messages. He'd wake at noon, chug a can of Java Monster, and check his in-box to find up to 800 e-mails waiting for him—a virtual universe to explore. "It's the whole Star Trek thing," he says. 'Going where no man has gone before.' "

Read the whole story at <http://www.gq.com/news-politics/newsmakers/201205/chris-chaney-hacker-nude-photos-scarlett-johansson#ixzz1yimU3kih>

Why did this article give us an aha Erlebnis? After reading it and discovering that the gist of the hacker's success were long arduous hours of plain and simple (search) work, and not some magic (I.T.) formula or just some plain old luck, we realized that we had fallen for the same prejudice that a lot of people seem to have about a long term (and we stress: long term) investment success. When talking to people about investment track records, they always seem to think that a successful investment manager has privileged access to financial information or uses ultra-sophisticated I.T. tools, or they just dismiss the long term track record as plain old luck. – "It's all luck" is something we've been hearing a lot about John Paulson lately; amazing how easily an amazing long term track record is dismissed after the pretty bad results he had last year; in any case, we wouldn't want to bet against him. – Amazingly, people never seem to think that countless hours of hard and smart work might have anything to do with it!

It is not as simple as taking two aspirins, but if you have the right investment principles and the character/discipline to stick to them (especially when you encounter periods when the principles don't seem to work), BOATLOADS of work will get you pretty far on the road to investment success. Of course, this sounds simple, but is not easy. Especially, the boatloads of work part!

Housekeeping and next update

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

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

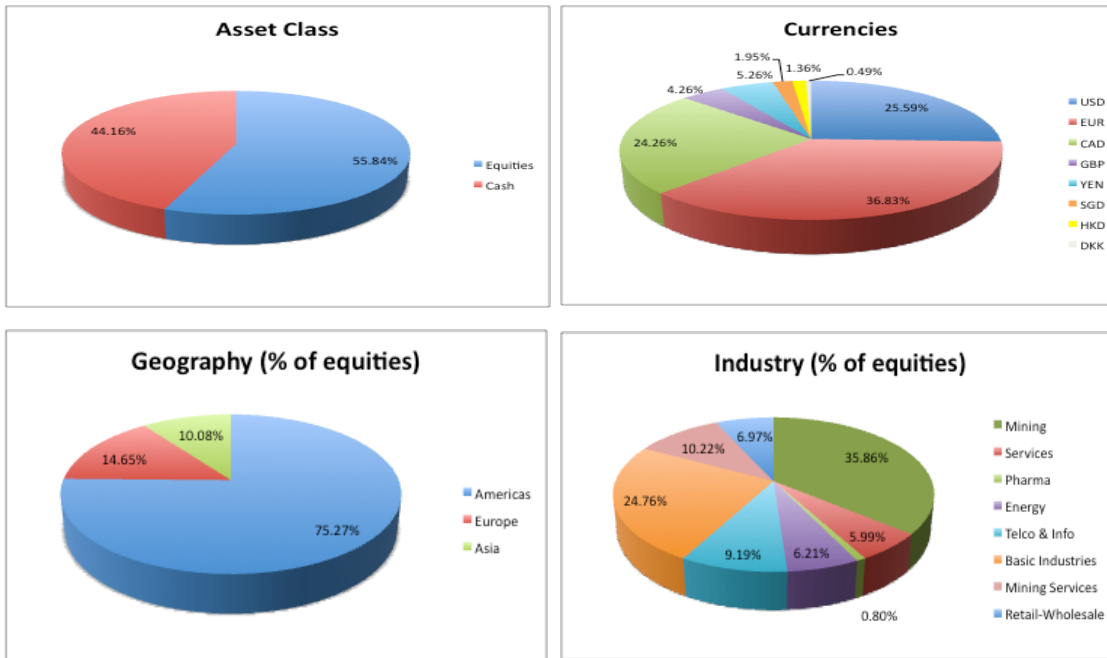
Don't forget to enjoy the summer holidays!

We leave the final words of this letter to John Paulson: "Our goal is not to outperform all the time – that's not possible. We want to outperform over time."

The Tartaros Team

2 Fund Overview

2.1 General Overview (end of Q2 2012)



2.2 Fund Positions

We have no short positions and no leverage. We are invested long across 34 investment positions.

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

Market Capitalizations in USD	% of equities invested
> 5 Billion	12%
1 < 5 Billion	26%
0,5 < 1 Billion	6%
< 0,5 Billion	56%

Position	% of portfolio
Cash	44,16%
Investment 1	4,7%
Investment 2	3,83%
Investment 3	3,64%
Investment 4	3,63%
Investment 5	3,56%

We sold the following investment:

<i>Disinvestment</i>	<i>Entry Price</i>	<i>% of Portfolio</i>	<i>Return</i>	<i>Annualized Return</i>
Freenet	3,38 eur	2,15%	189%	53,6%

0,81% of the Fund is still invested in Freenet.

It should be noted that all numbers are approximations.

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