1 General Overview

Sunday, 6 January 2013

Baseball was an art, but to excel at it you had to become a machine. It didn't matter how beautifully you performed sometimes, what you did on your best day, how many spectacular plays made. You weren't a painter or a writer—you didn't work in private and discard your mistakes, and it wasn't just your masterpieces that counted. What mattered, as for any machine, was repeatability. Moments of inspiration were nothing compared to elimination of error. The scouts cared little for Henry's superhuman grace; insofar as they cared they were suckered-in aesthetes and shitty scouts. Can you perform on demand, like a car, a furnace, a gun? Can you make that throw one hundred times out of a hundred? If it can't be a hundred, it had better be ninety-nine.
- The Art of Fielding, Chad Harbach

Dear Partners:

The Fund finished the fourth quarter of 2012 -4,20% in the red, versus -1,30% for the MSCI World Index and versus +7,4% for the Eurostoxx 50 (cf. graphs attached to email). We finished 2012 barely in the plus, i.e. 0,55%. The Net Asset Value of the Fund is 200,16. We currently have a 39,59% cash position and have gained 2% in the first two trading days of the year. We have made our first corporate bond investment.

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	-1,46	-3,58	-0,21	3,40	2,65	2,78	-1,69	-0,34	-2,22	0,55
Msci world	3,04	2,52	1,74	-0,41	-2,64	2,97	3,81	-0,92	0,45	-1,11	-1,26	1,08	9,41

*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 2012 results reported above are unaudited estimates and may be subject to change.

A quarter of terrible frustration…

Investors all of a sudden woke up at the end of the year and now seem to think and believe that all downside potential is now being mitigated by Outright Monetary Transactions by the ECB, and a pledge for unlimited Quantitative Easing (fancy name for the printing of money) by the FED and the BOJ. The central banks' promise of abundant liquidity had some bizarre year-end effects. Although there was hardly any earnings growth – and even declining growth forecasts during the entire year: everybody was expecting strong earnings growth for the entire year at the beginning of 2012 – in the European and U.S. economies, the markets went up because of multiple expansion, i.e. market participants are paying more for the same amount of earnings. The (government and corporate) bond markets also had their day in the sun. The reach for yield continues unabated, but yields can only go so low (they can't go below zero, although some short term bonds actually have a negative yield!)… This year Macy's completed a 30-year debt financing for a yield of 4.32%. Disney issued 30-year debt at 3.74% and Apache Oil at 4.77%. (source: David Rosenberg) Or what about giving your money to the U.S. government for 10 years? They promise you a yearly yield of 1.76%. Or to the German government for a 1.34% yield?

We are bottom-up investors, but we are convinced that now, more than ever, it will be extremely difficult for investors to keep a long term focus in this volatile risk-on/risk-off world where security prices and time horizons are – by central bank interventions – divorced from economic fundamentals. We are concerned over the unintended consequences of these experimental policies (read: central bank market manipulation).

In any case, our very paltry return this year was the result of a large cash hoard, our non-euro exposure working against us in the last quarter, a range of investments who deservedly (bad economic performance) and undeservedly (caught up in liquidation moves or just ignored by the overall market)

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experienced multiple contraction, a few (too few!) who performed well, and our macro hedge position disguised as regular long equities, that unexplainable was hit by massive multiple contraction the second year in a row. In that respect, the issue of timing and size play an important role. Everybody always talks about investment ideas, but never about the sizing (percentage of an investment portfolio) and timing (the potential realization of the investment idea). Since timing is almost never within one's control, the sizing of the investment idea becomes very important. The size of an investment position is a delicate art. You are supposed to try to balance that you are adequately rewarded when the investment thesis works out with the possibility that it might take longer than you expected (it always does) or that you are just flat out wrong (it happens more than we want).

As bottom-up value investors we should be more cautious than ever. When greed is trumping fear, for a value investor times get harder as investment opportunities are fewer and harder to find. The temptation then rises to chase the market indices, trying to avoid another period of potential underperformance against major market indices, by investing in stocks with a smaller margin of safety. This is exactly what we will not do! The next harvest of investment opportunities will come when everyone is "on board" the stock market and the next (inevitable) correction or contraction appears (as always out of nothing).

Having people – friends & family – trust you with the investment management of their hard earned savings can be very gratifying at times, but for the past couple of months it has been "**extremely**" frustrating…

Just one number!

EuroHedge Global Equity Long-Short Index (eur)) vs Tartaros Global Value Fund (eur)

	2008		2009		2010		2011		2012	
	Tartaros	Global Equity	Tartaros	Global Equity	Tartaros	Global Equity	Tartaros	Global Equity	Tartaros	Global Equity
Jan			8,54%	1,14%	-3,21%	-0,05%	-3,87%	0,40%	3,61%	2,97%
Feb			-2,06%	-0,12%	5,62%	-0,16%	4,63%	0,48%	-0,37%	1,72%
Mar			2,80%	0,46%	1,96%	2,44%	1,85%	-0,37%	-1,71%	-0,04%
Apr			10,62%	1,67%	5,19%	0,17%	-1,72%	0,40%	-1,46%	-0,80%
May			9,59%	2,28%	-0,68%	-2,76%	0,29%	-0,25%	-3,58%	-3,17%
Jun			-3,94%	-0,37%	-0,31%	-1,39%	-4,84%	-1,30%	-0,21%	0,01%
Jul			4,45%	1,69%	-3,89%	1,59%	2,58%	0,00%	3,40%	0,95%
Aug			0,27%	1,47%	4,80%	-0,55%	-1,53%	-3,35%	2,65%	0,51%
Sep			2,60%	1,84%	2,63%	2,20%	-6,51%	-2,76%	2,78%	1,15%
Oct	5,36%	-2,82%	-0,50%	-0,48%	2,18%	1,03%	1,74%	2,09%	2,78%	-0,58%
Nov	-3,82%	-0,91%	4,53%	-0,08%	10,45%	0,32%	4,99%	-1,29%	2,38%	0,58%
Dec	4,89%	-0,12%	2,32%	0,78%	4,74%	2,06%	0,11%	-0,27%	-2,22%	0%*
YTD	6,30%	-3,82%	45,52%	10,72%	32,64%	4,87%	-2,98%	-6,16%	0,55%	3,20%

*December 2012 return is estimate.

This past quarter we were asked what the right benchmark is against which we should be held accountable. Should we use an all equity index such as the MSCI World index, the Eurostoxx 50 or the S&P 500? Or should we use a combination of an equity and bond index, considering the fact that we can invest in both asset classes? Or should we focus on our direct "competitors" and use a hedge fund index such as the Eurohedge Global Equity Index? Or use the track record of an investment manager we greatly admire, e.g. David Einhorn? Unfortunately, there is no right answer. Moreover, the focus on just one number creates many problems.

The stoic philosopher Epictetus – yes, in these trying investment times, we have been reading too much Epictetus and Marcus Aurelius, trying to find our inner citadel – states that you become what you give attention to. So, when your investment strategy is too much focused on the market index, your investment return will become the market return. Everybody starts out (well, most people even skip this part) with a long term focus on a market index (benchmark against which you try to outperform). But soon enough (read: immediately), everybody checks the market (index) daily. And hence, you end up focused not on outperforming the index (the long term goal) as a derivative of investing in (publicly) listed companies, but on not straying too much from the market index by just trying to time the market (index).

David Einhorn/Greenlight Capital via Greenlight Re (usd) vs Tartaros Global Value Fund (eur)

	2008		2009		2010		2011		2012	
	Tartaros	Greenlight	Tartaros	Greenlight	Tartaros	Greenlight	Tartaros	Greenlight	Tartaros	Greenlight
Q1			9,28%	4,6%	4,23%	-1,9%	2,44%	-3,4%	1,47%	6,5%
Q2			16,45%	13,9%	4,15%	2,6%	-6,21%	-1,9%	-5,18%	-3,3%
Q3			7,45%	4,3%	3,36%	3,6%	-5,56%	0,1%	9,09%	8,8%
Q4	6,30%	-5,30%	6,43%	6,4%	18,21%	6,5%	6,93%	7,6%	-4,20%	-4,4%
YTD	6,30%	-5,30%	45,52%	32,1%	32,64%	11%	-2,98%	2,1%	0,55%	7,1%

Focusing on just one number also leads to problems when trying to evaluate investment managers. That was the answer we gave when somebody asked us if you could compare two investment managers solely on their investment returns. Would you have invested with someone who had no skin (100 usd to be exact) in the game when he started out, or who invested 40% of his fund in one company? Would you have invested in an investment vehicle that lost 50% in market value in one year? We are wholeheartedly sure you would not! But based on his compound investment return everybody claims that they would have invested with Warren Buffett.

From today's standpoint, Seth Klarman, another legendary value investor, has dramatically outperformed the market, but during the 1990's he was being strongly outperformed by the S&P500. Even in 2001, one of his fund's total return did not yet catch up to the S&P500, but from buying many cheap stocks after the bubble burst and because he didn't lose money in the bubble, he eventually strongly outperformed the market.

So to be clear: it is never about just one number!

Chart of the Year

From PIMCO's Mohamed El-Erian:

“Seeking to leave behind the darkness of the global financial crisis, bold central bankers are leading everyone into still-muddy and unchartered territory. The outlook is uncertain. The traditional map is of little use. They are pulling along politicians who, rather than lead, are bickering and dithering. Then there are the citizens. Confused and uncertain, they are being pulled along reluctantly. And some (e.g., Greek citizens) are disengaging, having lost trust in both policymakers and politicians.”

Housekeeping and next update

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

We would like to thank all the partners of the first hour (a little bit more than 4 years ago) for their renewed long-term commitment!

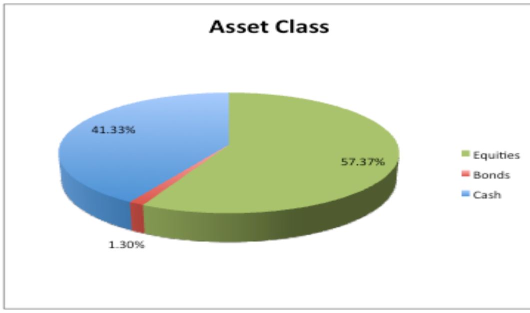
We have upped our stake in the Fund. As always, your money will be managed right alongside money that is very near and dear to us. Ours.

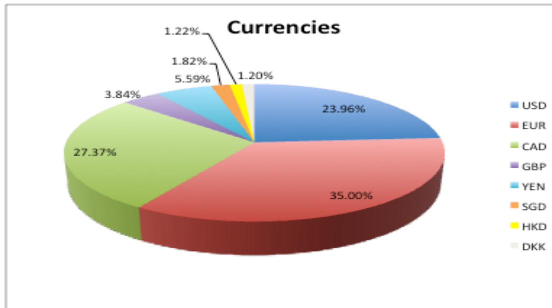
Happy New Year!

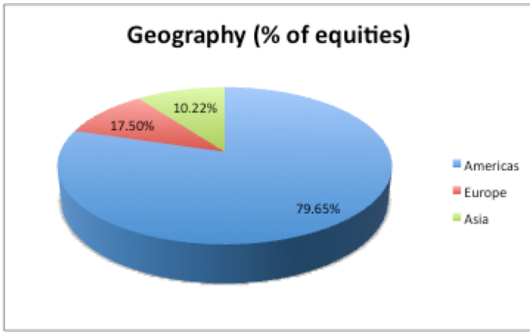
The Tartaros Team

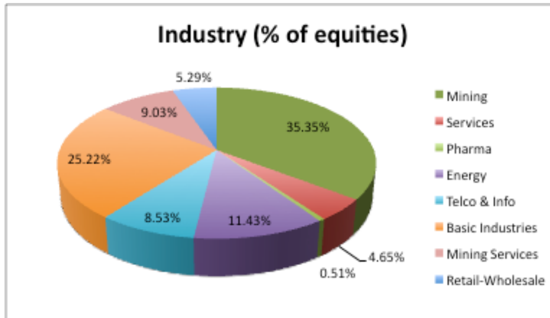
2 Fund Overview

2.1 General Overview (end of Q4 2012)









2.2 Fund Positions

We have no short positions and no leverage. We are invested long across 33 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	39,59%
Investment 1	5,34%
Investment 2	4,76%
Investment 3	4,42%
Investment 4	3,66%
Investment 5	3,43%

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We sold the following investment:

Disinvestment	*Entry Price*	*% of Portfolio*	*Return*	*Annualized Return*
Drillisch*	5,69 eur	2,21%	78,99%	40,78%
Jaguar Mining	6,51 usd	0,20%	-83,33%	

* We are in the process of selling the remaining position (2,61% of the Portfolio) around 11,75 euro.

It should be noted that all numbers are approximations.

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