1 General Overview

Saturday, 11 January 2014

"Many investors mistakenly establish an investment goal of achieving a specific rate of return. Setting a goal, unfortunately, does not make that return achievable. Indeed, no matter what the goal, it may be out of reach. Stating that you want to earn, say, 15 percent a year, does not tell you a thing about how to achieve it. Investment returns are not a direct function of how long or how hard you work or how much you wish to earn. A ditch digger can work an hour of overtime for extra pay, and a piece worker earns more the more he or she produces. An investor cannot decide to think harder or put in overtime in order to achieve a higher return. All an investor can do is follow a consistently disciplined and rigorous approach; over time the returns will come."
- Seth Klarman, Margin of Safety, 1991

Dear Partners:

The Fund finished the fourth quarter of 2013 -1,1% in the red, versus +4,39% for the MSCI World Index and versus +0,47% for the Eurostoxx 50 (cf. graphs attached to email). The Net Asset Value of the Fund is 188,39 (cf. part 2.3 for all series' NAVs). We currently have a 36,95% 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)*

2013	*jan*	*feb*	*mar*	*apr*	*may*	*jun*	*jul*	*aug*	*sep*	*oct*	*nov*	*dec*	*ytd*
Fund	-2,83	-1,58	3,38	-5,00	-1,13	-2,15	2,22	2,76	-0,25	0,52	-1,05	-0,60	-5,88
Msci world	2,28	3,41	2,30	2,89	0,28	-3,24	4,24	-2,56	2,68	2,14	2,29	-0,08	17,62

*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 2013 results reported above are unaudited estimates and may be subject to change.

TARTAROS SICAV-FIS, S.C.A.
287, route d'Arlon
L-1150 LUXEMBOURG

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7, route d'Esch
L-1470 LUXEMBOURG

	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*	*10,37*	*10.59*	*17,62*	*3,69*	*12,11*
Annualized	*12,95*	*3,56*	*2,12*	*9,55*	*3,72*	*5,20*
Cumulative	*88,39*	*19,97*	*11,53*	*60,72*	*20,96*	*30,19*
80% of traditional funds underperform 0.5% of traditional funds outperform more than 3% over the very long term						

Adding insult to injury…

"To thrive as a value investor you have to risk being called a dummy from time to time."
- Christopher H. Browne

This year's investment results have been very disappointing. Not only did we not achieve our absolute return objective, but our relative performance, considering the strong performance of most equity markets around the world, was also very disappointing. In hindsight, there was only one way to win big this year: buy the stock market (index) and hold, long and strong, while ignoring valuation and hedges. Unfortunately, there is nothing we can do today to undo our investment decisions of 2013, we can only focus all our efforts on our future investment decisions.

The strong rise of the European and U.S. stock markets is all the more puzzling when considering the economic background. Earnings of U.S. companies have grown about 7% in 2013. And earnings of European companies not only declined in 2012, but also again in 2013. Moreover, not only did earnings decline in Europe the past two years, but earnings expectations were also not met; they were taken down from very positive expectations of substantial earnings growth to actual sub-zero earnings growth. In other words, the entire return of the European stock market has come from expanding multiples as opposed to earnings growth. And more than 80% of the U.S. stock market's return (close to 30% in usd) has also come from an expanding multiple. The European stock markets are now trading at 15 times trailing earnings, and close to 20 times trailing earnings for the U.S. stock market.

Warren Buffett has always been very clear about what drives his assessment of value: stocks should be valued as if you were purchasing the whole business. The way you (properly) value a business is to weigh the price against the long-term stream of cash flows that you expect that business to deliver into your hands over time. It is abundantly clear to us that we would never consider buying a private company at 15 to 20 times trailing earnings, so neither would we consider buying a piece of public company at these valuation levels. Of course, the vast majority of the investment public does never even considering this

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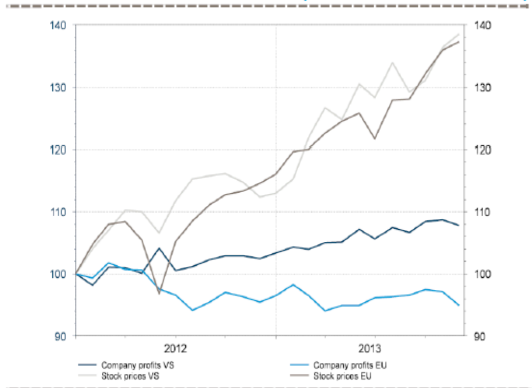
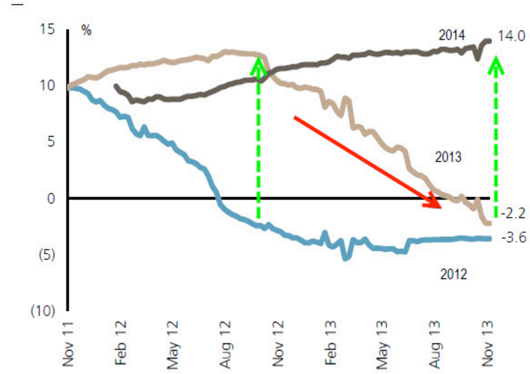
litmus test.

EVOLUTION STOCKS & PROFITS (INDEX START 2012 = 100)



Source: Thomson Reuters Datastream

Figure 12:Consensus estimates for DJStoxx EPS growth



Source: UBS European Equity Strategy, Thomson Datastream

Our poor result was the outcome of a combination of factors (cf. Q2 Investment Letter - the best of the best: mental capital vs real capital):

(1) Higher level of cash.

Our higher level of cash was not the result of an asset allocation decision, but the byproduct of the current environment where we found very few suitable investment opportunities ideas. At times such as now, when stock markets rise relentlessly, many people can see a significant cash holding as a waste of money and yet, the harder it becomes to find attractively valued investment opportunities, the more valid the idea becomes. It is ironic that private business owners are never forced to invest their cash balances irrespective of the expected returns on their business (read: investment) decisions. But in the investment industry, investment managers are “forced” by the pressure of the rising stock market indices, irrespective of valuation parameters. To be clear, in hindsight, our caution proved to be wrong. However, being wrong and being early can look indistinguishable form time to time.

(2) Adverse currency fluctuations.

Adverse currency fluctuations – our American and Canadian dollar exposure – had a negative impact of approximately 3,5%.

(3) The golden apple of discord continues to taste really bad.

Not only was gold the worst performing asset class in 2013, it is now also trading close to the marginal cost of production of gold (90% percentile), a level at which mines are being closed down and thus supply is rationed. Moreover, precious metals miners are now trading at levels below the depth of the financial crisis in 2008/2009 and thus at historical valuation levels.

(4) Cheap stays cheap in an anti-momentum portfolio.

We currently have a range of investments that in the long run are not so dependent on the volatility of

TARTAROS SICAV-FIS, S.C.A.
287, route d'Arlon
L-1150 LUXEMBOURG

TARTAROS INVESTMENT PARTNERS sàrl
7, route d'Esch
L-1470 LUXEMBOURG

the stock market for their return (catalyst / activist related). The consequence is that when momentum drives the stock markets, these investments are left behind… until the catalyst is realized. Moreover, selling and passing up on fully valued and over-valued investments is very difficult, because in a momentum driven market these stocks have a tendency to keep on rising. But without selling them and/or passing up on them, there will be no capital to deploy when attractive investment opportunities do present themselves. So selling expensively valued companies is as central to the success of a value investment approach as the buying of cheap ones.

Discipline and patience are key!

"It's not supposed to be easy. Anyone who finds it easy is stupid."
- Charlie Munger

The returns generated by value investing can be highly volatile over shorter time periods but over longer time periods, of course, value investing tends to be highly consistent in delivering strong returns. As such, accepting there will be periods of sub-par performance and, in spite of these, remaining focused on the longer term is a key tenet of successful value investing.

John Huber of the very interesting blog www.basehitinvesting.com recently wrote the following on this topic:

“It's very difficult to stay the course when your strategy isn't working. As Greenblatt says “Value investing works because sometimes it doesn't work.”

I've picked apart Schloss' returns. Here's an interesting fact I learned from doing that: despite Schloss trouncing the market by 10% per year (20% vs 10% S&P from 1955-2002), he had numerous 2-3+ year periods of underperformance. In fact, there was one period where Schloss actually underperformed for 10 years!

From 1989 to 1998, the S&P roughly doubled Schloss' results. This means start to finish… there were years in that period he beat the S&P, but an investor who came in at the beginning of that period would still be behind an index fund 10 years later.

How many mutual funds could survive during that length of time? Any investment manager would lose all of their clients after that length of time. Schloss had a small core group of clients in a partnership, and so he was able to continue working the way he always worked without huge withdrawal problems, but probably somewhere around 99% of the time under similar situations, most investors would leave.

Think about that! Talk about patience… Most investors abandon a strategy if it doesn't outperform for 3-6 months. Some might give it a year or two. I don't know anyone that would stick around for a decade. Now, here is an even more interesting anecdote: After that 10 year period, Schloss went on a 4 year run where he trounced the market and made up for the entire 10 year underperformance so much so that the overall 14 year record looked outstanding–in fact, it doubled the S&P's return over the entire period, despite a decade of underperformance. So the S&P's margin over Schloss was completely reversed 4 years later! So sometimes value investing is underwhelming.”

Another important part of a value investment philosophy is a willingness to be contrarian, by following Warren Buffett's credo of being fearful when others are greedy, and greedy when others are fearful. It might feel unnerving to watch the markets march higher while you're on the sidelines, but truly spectacular long-term returns come only from selling when everyone is buying and buying when everyone is selling.

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L-1470 LUXEMBOURG

Today, rather than being influenced and controlled by emotions or economic forecasts (it is that time of the year again), we should always be focused on the only objective guide, i.e. valuation levels. Lots of people believed that things were more negative in 2008- 2009 than they are today, when the economic outlook appears to be better. Yet from an investment/return perspective things were more positive back then as valuations were low, while the high valuations of today will lead to constrained returns in the future. In the end, it is not so much the depth of a value investor's financial acumen that is the most important but his/her emotional fortitude. It this strength of mind that helps to have the discipline and conviction to take decisions that are difficult or seem counterintuitive at the time. Over a four to five-year investment time horizon, it is precisely these types of contrarian decisions that will add the most value to an investor's portfolio. At the moment we have to remain patient…

Our long-term goal remains the same!

"The single greatest edge an investor can have is a long-term orientation."
- Seth Klarman

Our investment job, as investment managers and fellow partners/owners, and investment objective is to earn reasonable returns on the Fund's capital, such that these returns, compounded over a very long period (a decade or more), will yield significant absolute sums of capital. We do not know how to deliver consistent returns in any given period, whether the period be a year or longer, but we remain focused on maximizing long-term compounded returns. We personally do not take profits when the Fund is up nor cut losses when the Fund is down. On the contrary, when possible we try to add to our already large stakes in the Fund.

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.

Thank you for your continued trust and support, and our best wishes for the New Year!

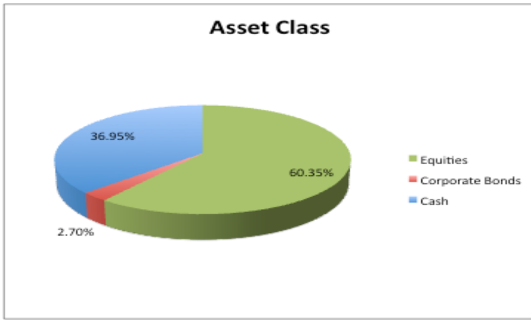
The Tartaros Team

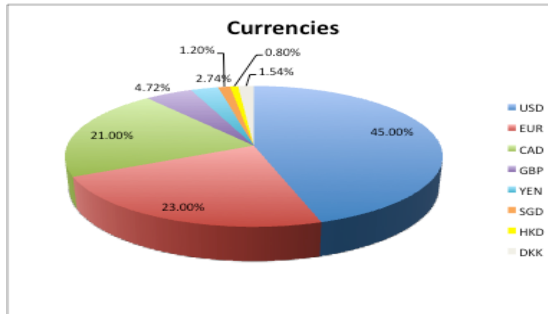
TARTAROS SICAV-FIS, S.C.A.
287, route d'Arlon
L-1150 LUXEMBOURG

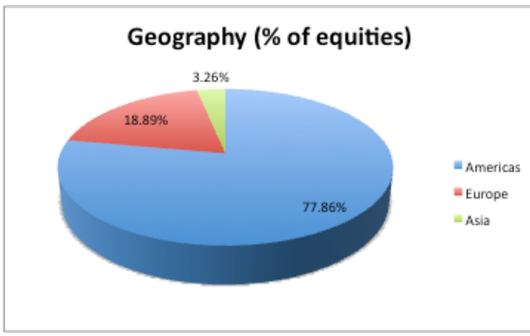
TARTAROS INVESTMENT PARTNERS sàrl
7, route d'Esch
L-1470 LUXEMBOURG

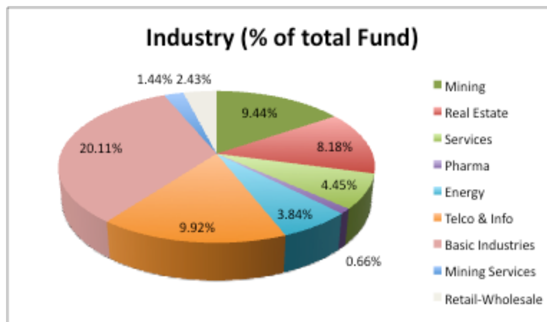
2 Fund Overview

2.1 General Overview (end of Q4 2013)









2.2 Fund Positions

We have no short positions and no leverage. We are invested long across 35 investment positions.

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

Market Capitalizations in USD	*% of equities invested*
> 5 Billion	23%
1< 5 Billion	25%
0,5 < 1 Billion	8%
< 0,5 Billion	44%

Position	*% of portfolio*
Cash	36,95%
Investment 1	4,29%
Investment 2	3,90%
Investment 3	3,71%
Investment 4	3,40%
Investment 5	3,14%

We sold the following investment:

Disinvestment	*Entry Price*	*% of Portfolio*	*Return*
Motorcar Parts of America	6,2 usd	2,6%	145%

* We still hold a stake in Motorcar Parts of America (2,75% of Fund).

It should be noted that all numbers are approximations.

2.3 NAV series

Série A 1 LEAD	188,39
Série B 3 31/12/10	91,81
Série C 5 31/03/11	89,93
Série D 7 30/06/11	95,56
Série E 9 30/09/11	100,44
Série F 13 31/12/11	94,63
Série G 15 31/03/12	93,26
Série H 17 30/06/12	98,19
Série I 19 30/09/12	90,17
Série J 21 31/12/12	94,12
Série K 23 31/03/13	95,19
Série L 25 30/06/13	103,54
Série M 27 30/09/13	98,86