1 General Overview

Tuesday, 10 July 2018

It is said among merchant mariners that, yes, a captain has the authority to refuse orders he deems to be unsafe – but probably only once.
- The clock is ticking: Inside the worst U.S. maritime disaster in decasdes, Vanity Fair, April 2018

Brian Chesky (CEO of Airbnb) to Jeff Bezos: "Jeff, what's the best advice Warren Buffett ever gave you?"
Bezos: "[I asked Warren,] your investment thesis is so simple... you're the second richest guy in the world, and it's so simple. Why doesn't everyone just copy you?"
Buffett: "Because nobody wants to get rich slow."

Dear Partners:

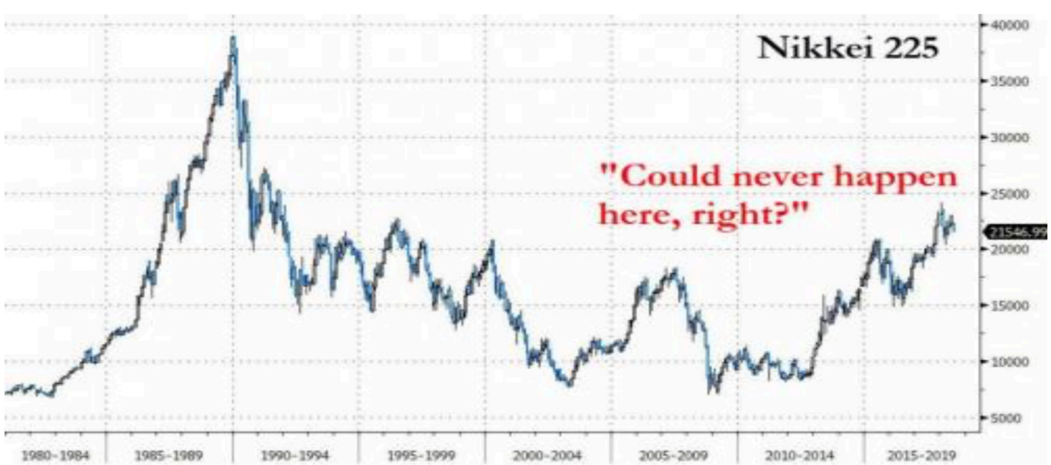
The Fund finished the second quarter of 2018 3,02% in the plus, versus 1,01% for the Eurostoxx 50 and versus +6,67% for the MSCI World Index. Year to date the Fund is down -0,83%. The Net Asset Value of the Fund is 209,02 (cf. part 2 for a more detailed Fund overview, for detailed return results and the NAVs of all series).

Returns % (in € - net of all fees)*

2018	*jan*	*feb*	*mar*	*apr*	*may*	*jun*	*jul*	*aug*	*sep*	*oct*	*nov*	*dec*	*ytd*
Fund	-2,01	-1,24	-0,53	1,00	3,49	-1,44							-0,83

What?! (1)

"Okay, really high-level. People assume that equities always go up. And they certainly have been for an awful long time in the U.S. But they can go through really long periods of sideways movement.



If you look at the NIKKEI – I started my career in 1989. The NIKKEI today, in nominal terms, is where it was in 1987. It's where it was before I started my career. It's moved sideways during that period. The S&P is up over 800% in that period of time. So we've outperformed the NIKKEI from 1987 by over 800%. Euro Stoxx, European, their big equity index, it is unchanged from where it was in 1998 – 20 years ago. We're up 130% during that period of time, the S&P 500. And the Shanghai Composite is unchanged from where it was in 2006, at this point. So it's unchanged over the past 12 years, despite the enormous real and nominal GDP growth out of China. Their equity market is flat for 12 years. We're up 90%.

So it's just a reminder that we go through these periods of assets doing extremely well – pricing in all kinds of robust growth for the future – and then periods where they can obviously have big corrections, but even over long periods of time they can just move sideways."

source: Eric Peters, CEO and CIO of One River Asset Management, MacroVoices podcast

What?! (2)

With just a month of trading days left until the (S&P 500) bull market becomes the longest of all time, it seems that investors are now more positive about the stock markets than at any point since 2009. We're 8 and a half years into an economic expansion, and most investors believe once again that a recession and a bear market is something from an ancient past, never to be seen again.

The S&P also broke another record, this one dating back 88 years: the Shiller CAPE (10-year cyclically adjusted price- earnings ratio) eclipsed the high recorded in September 1929.

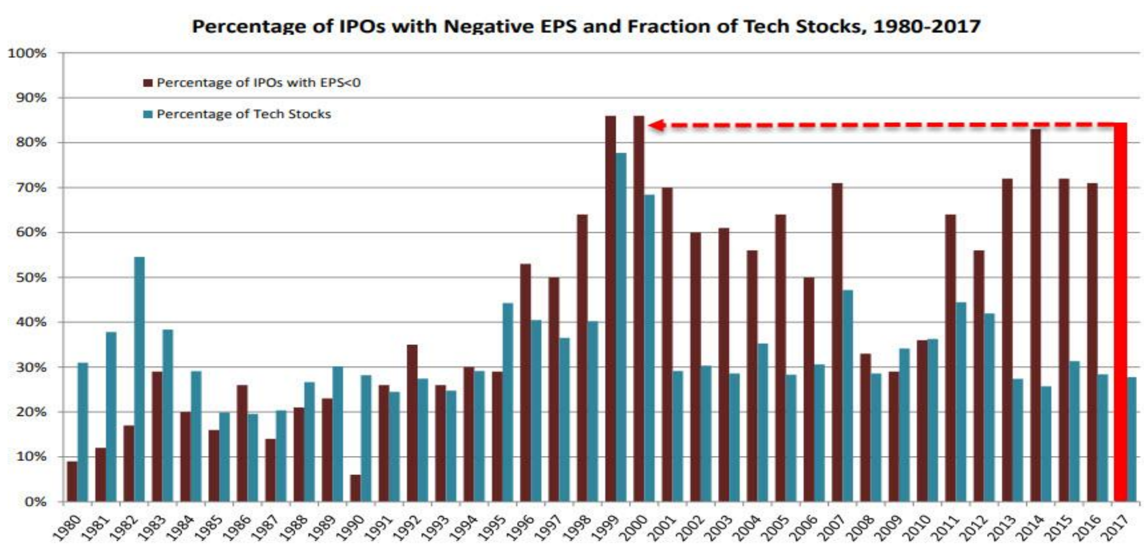
Year	Shiller CAPE	Decline
1929	32.6	86%
1937	22	54%
1961	22	29%
1968	22.3	37%
1973	18.7	50%
1980	9.7	28%
1987	18.3	36%
2000	43.2	51%
2007	27.3	57%

While research shows that valuations are an extremely poor forecaster of equity market returns in the short term, they are the best predictor of long-term returns. A Shiller CAPE (10-year cyclically adjusted price- earnings ratio) of 31 translates into a real-return forecast for U.S. stocks of less than 3%.

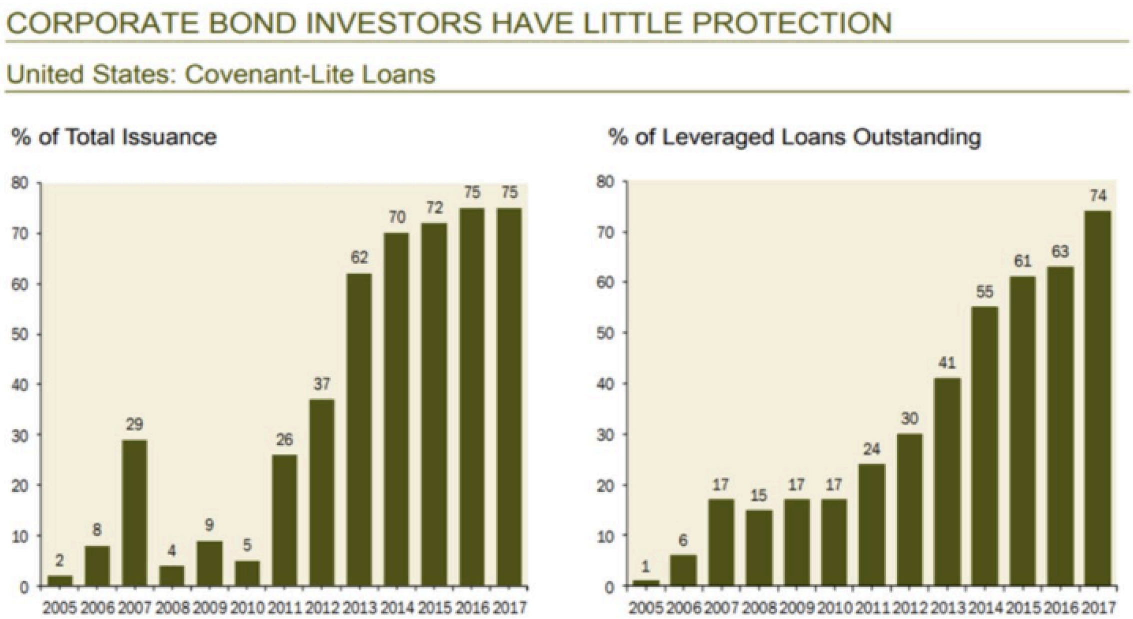
But again, investors should not be using equity market valuations to time the market. However, it is important for investors to take historically high valuations (and historically low bond yields) into account when they forecast returns to build (retirement and other) plans based on forward-looking estimates.

What?! (3)

76% of companies that went public in 2017 were unprofitable, eclipsed only by 2000 when 81% were losing money. The 40 year average is 38%.

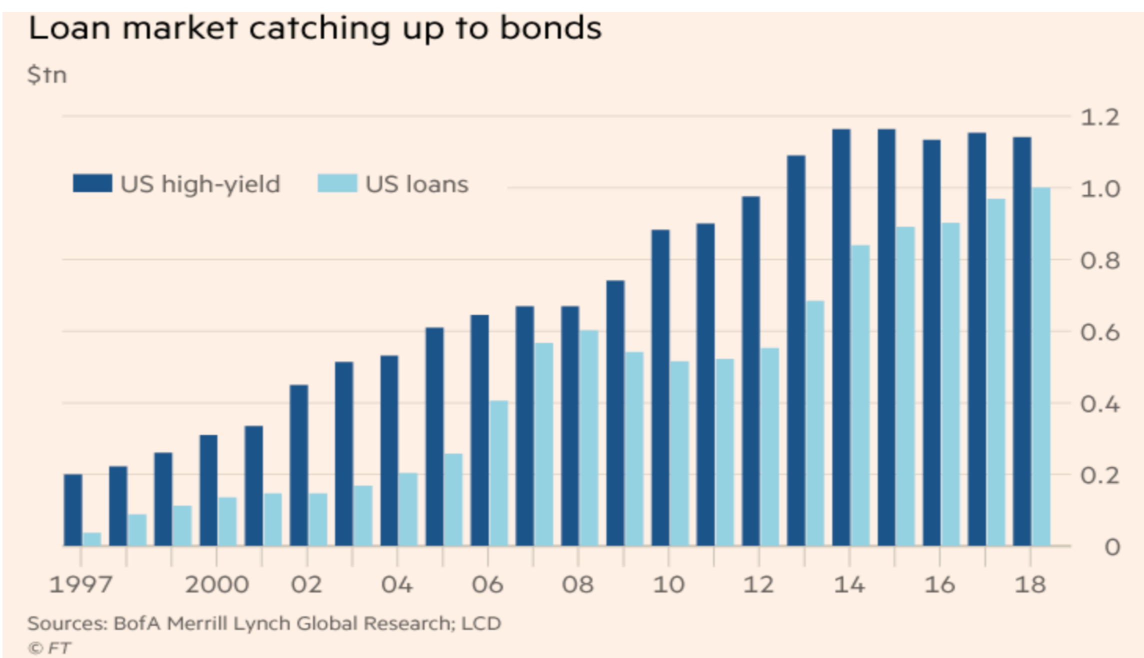


source: https://www.zerohedge.com/news/2018-06-24/hedge-fund-cio-theres-never-been-dip-risk-parity-guys-havent-bought



"An important shift in how companies finance themselves has reached a milestone. The leveraged loan market has officially become a $1tn asset class and is catching up fast with US high yield or junk bonds.

Since 2010, the leveraged loan market has doubled in size from $500bn while US high yield has expanded $250bn to $1.1tn, according to Bank of America Merrill Lynch. The growth in loans reflects a post-financial crisis shift away from being a "private bank-loan model to a thriving syndicated market with hundreds of participants" that has coincided with retail money flowing into the market, says the bank.
Money has continued to pour into loan funds, where interest rates are floating and adjust higher as the Federal Reserve tightens policy.



That kind of demand has helped fund and drive a record era for merger and acquisitions. "A higher proportion of capital raised today goes towards LBOs [leveraged buyouts] and acquisitions than was the case in 2010," says BofA, noting how half of money raised since 2016 has reflected M&A, up from a level of 30 to 40 per cent at the beginning of the cycle."

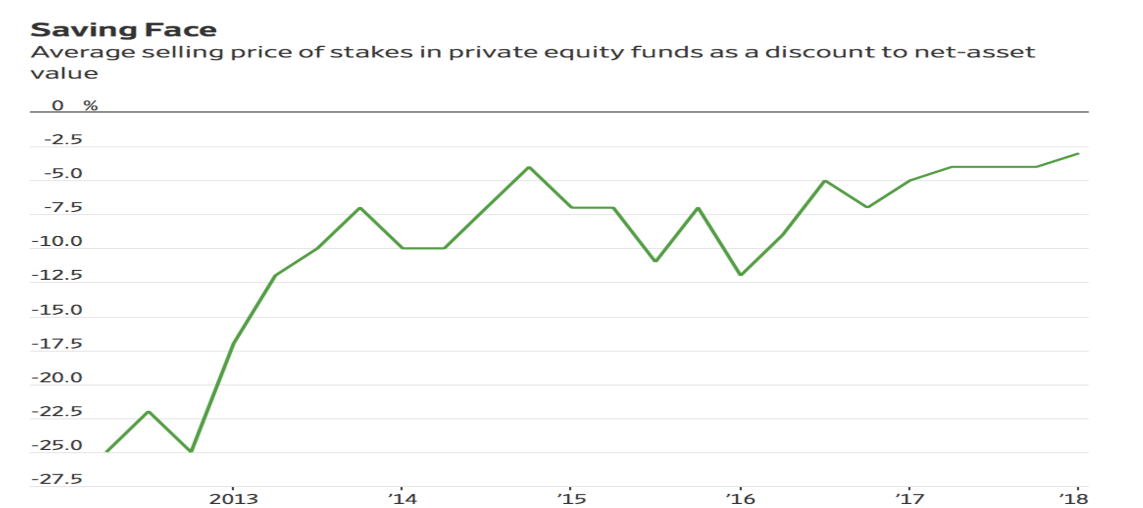
source: https://www.ft.com/content/e3bc6c46-4ebf-11e8-a7a9-37318e776bab

What?! (4)

"The market for unwanted stakes in private-equity funds used to be where investors who desperately needed cash offloaded holdings at steep discounts.

Now, the market is much more active and mature with bigger deals and surprisingly high prices: some investors have paid more than the funds' assets are worth. But risks may be growing along with the market. Buyers are using borrowed money to juice returns, which means putting leverage on a portfolio of companies that are already indebted.

Last year saw a record of nearly $50 billion worth of deals globally, according to Credit Suisse 's private fund group. That was a jump from the $35 billion to $40 billion range in the previous three years, which in turn was much higher than the years before 2014. Borrowed money was used to help fund almost one-quarter of 2017's deals, according to Triago, an advisory firm. Where leverage is used, it is typically 40% 60% of the value of the deals, according to Credit Suisse.



When the market was dominated by distressed sellers and only a few specialist buyers, the sales used to be done at steep discounts to the net asset value of the investments in the fund.
Things have changed: this year the average stake in a private-equity fund is selling at face value and many sell for a premium, according to Palico, an online market for stake sales."

source: https://www.wsj.com/articles/private-equity-so-hot-even-second-hand-funds-can-sell-at-a-premium-1529924400

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

In today's unprecedented market environment it is increasingly hard to find real value, but we continue to look for accepted investment propositions that seem way off to us.

e.g. (1) The saving shares of a traditional telecom incumbent caught in a boardroom battle between two legendary activist investors. (2) A completely mismanaged Japanese mini-conglomerate with massively undervalued retail real estate; an activist investor is involved. (3) A REIT that was spun off from Simon Property Group in May 2014 and whose share price lost 65% of its IPO value. The company owns a diversified portfolio of retail assets, consisting of both enclosed malls and shopping centers (i.e. 5,3 million square meters in so-called class B malls).

Must reads

Whatever problem you're struggling with is probably addressed in some book somewhere written by someone a lot smarter than you.
- Ryan Holiday

A must read (and yearly re-read) about how investing is not the study of finance; it's the study of how people behave with money:

http://www.collaborativefund.com/blog/the-psychology-of-money/

A must read about how failures and losses are part of the game of investing / the game of life:

http://awealthofcommonsense.com/2018/06/6-things-i-learned-from-big-mistakes/

A must read about how getting rich is one thing, but staying rich is equally or even more difficult:

http://awealthofcommonsense.com/2018/07/sustaining-wealth-is-harder-than-getting-rich/

Administration and the next update

Please mark Thursday evening, the 18th of October, in your agenda for a Fund event; more information will follow after the summer.

You should receive the next investment letter by the middle of September at the latest.

As always, please email or call us with any questions you have.

Enjoy the summer holidays!

The Tartaros Team

2 Fund Overview

2.1 General Overview (end of Q2 2018)

	Asset Class
Equities	45,80%
Preferred Equities	0,71%
Corporate Bonds	1,70%
Cash	51,79%
	100,00%

	Currencies
USD	48,18%
EUR	17,05%
CAD	15,37%
YEN	11,39%
HKD	7,16%
NOK	0,85%
	100,00%

	Industry (as % of Fund)
Mining	6,95%
Services	5,51%
Pharma	0,70%
Energy	0,14%
Telco & Info	7,34%
Basic Industries	8,49%
Mining Services	0,32%
Retail-Wholesale	10,31%
Real Estate	8,44%

2.2 Fund Positions

We have no short positions and no leverage. We are invested long in 27 positions.

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

Market Capitalizations in USD	*% of equities invested*
> 5 Billion	0%
1< 5 Billion	4%
0,5 < 1 Billion	15%
< 0,5 Billion	81%

Position	*% of portfolio*
Cash	51,79%
Investment 1	6,76%
Investment 2	5,82%
Investment 3	4,39%
Investment 4	3,75%
Investment 5	2,50%

It should be noted that all numbers are approximations.

2.3 NAV Series

TARTAROS FIS SCA GLOBAL VALUE CL A CAP	209,02
TARTAROS FIS SCA GLOB VALUE S CAP 311216	96,72
TARTAROS FIS SCA GLOB VALUE T CAP 310317	94,41
TARTAROS FIS SCA GLOB VALUE U CAP 300917	101,49

2.4 Return Overview

Below are the results of the Tartaros Global Value Fund for 2018; also shown is the return of two major market indices (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)*

2018	*jan*	*feb*	*mar*	*apr*	*may*	*jun*	*jul*	*aug*	*sep*	*oct*	*nov*	*dec*	*ytd*
Fund	-2,01	-1,24	-0,53	1,00	3,49	-1,44							-0,83
Msci world	1,27	-2,90	-2,63	2,92	3,85	-0,20							2,14
Eurostoxx 50	3,01	-4,72	-2,25	4,12	-2,67	-0,32							-3,09

*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.
* The EURO STOXX 50 Index, Europe's leading Blue-chip index for the Eurozone, provides a Blue-chip representation of supersector leaders in the Eurozone. The index covers 50 stocks from 12 Eurozone countries.
*Please note that individual investor net returns will vary due to the timing of one's investment. The 2018 results reported above are unaudited estimates and may be subject to change.