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1 General Overview

Wednesday, 10 January 2018

Bitcoin, art, wine, equities, credit, you name it. Everything is one way up and there are huge distortions taking place, and it's all in the name of this 2% inflation target. And when you get a misallocation of resources, it really hinders growth over the longer term.
- Stanley Druckenmiller, December 2017 CNBC Interview

Dear Partners:

The Fund finished the fourth quarter of 2017 1,86% in the plus, versus -1,67% for the Eurostoxx 50 and versus +3,44% for the MSCI World Index. The Net Asset Value of the Fund is 210,76 (cf. part 2.3 for all the NAVs of all series).

In the fourth quarter the almost unprecedented headwind from currency movements increased again. But things can change quickly; we ended the first week of January 1% in the plus.

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)*

2017	*jan*	*feb*	*mar*	*apr*	*may*	*jun*	*jul*	*aug*	*sep*	*oct*	*nov*	*dec*	*ytd*
Fund	0,55	2,52	-0,62	-1,59	-2,00	-0,44	-2,03	-0,55	-0,11	0,45	1,21	0,19	-2,48
Msci world	-0,31	4,74	0,06	-2,54	0,49	-1,58	-1,60	0,45	1,73	3,29	-0,23	0,38	5,20
Eurostoxx 50	-1,83	2,75	4,84	-1,74	3,94	-3,20	0,25	-1,77	5,18	2,77	-2,52	-1,85	6,47

*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 2017 results reported above are unaudited estimates and may be subject to change.

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	Tartaros	*EuroHedge Global Equity*	*Euro Stoxx 50*	*MSCI World*	*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*	*10,97*	*10.59*	*17,62*	*3,69*	*12,11*
2014	*5,63*	*2,62*	*1,20*	*18,06*	*7,73*	*11,35*
2015	*-1,00*	*4,00*	*3,85*	*8,46*	*2,39*	*4,38*
2016	*9,81*	*-2,90**	*0,72*	*9,02*	*2,98*	*7,68*
Annualized	*9,847*	*3,13*	*2,85*	*10,35*	*3,95*	*6,13*
Cumulative	*116,11*	*28,74*	*25,91*	*124,36*	*37,40*	*62,94*

**end of November*

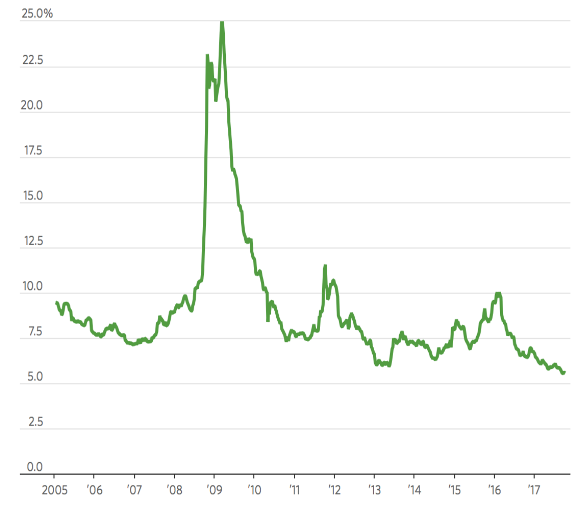
Bubble?

A bubble? Are we in a bubble? And yes, that is a rhetorical question! The global financial crisis is almost 10 years behind us, and we are witnessing the outcome of the biggest monetary policy experiment ever. The financial community at large has forgotten again – Wall Street never changes, because people never change – that risk is not only a concept, and this is playing out in unprecedented inflated asset prices everywhere you look.

The central bank experiment of massive balance sheet expansion and negative interest rates has created the everything bubble. Whether it is bitcoin going through 15.000 usd. Record prices for paintings. Unprecedented amounts of negative-yielding government debt**.** European junk bonds yielding less than U.S. Treasuries. Companies issuing negative yielding bonds. Yields on corporate junk bonds in the emerging markets at record lows. The largest amount of zombie corporations ever (according to the BIS definition). The highest profit margins ever. The highest amount of corporate debt ever. And equities, and, government and corporate debt that have never been similarly expensive at the same time, except for in the Roaring Twenties. And all of that with historic low levels of market volatility.

Please let all these facts sink in, really sink in and explain us how this is not an everything bubble!

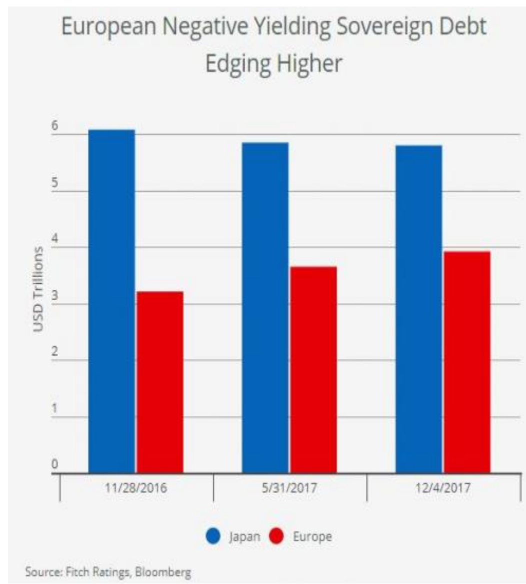
And you know when you are really, really in a bubble? When everybody actually agrees about the insanity of all the things going on, but then tell you that there are no reasons for it to not continue… the valuation level itself – how insane it might appear – is the only justification people need.



*Weekly yields on J.P. Morgan Corporate Emerging Markets Bond Index, High Yield as of Oct. 6.
Source: J.P. Morgan

Global Central Bank Policy Rates							
Country	Developed /Emerging	Rate	Central Bank Rate (Today)	CPI YoY	Real Central Bank Rate	Last Move	Last Move Date
Switzerland	Developed	Target Rate	-0.75%	0.7%	-1.5%	Cut	Jan-15
Sweden	Developed	Repo Rate	-0.50%	1.7%	-2.2%	Cut	Feb-16
Eurozone	Developed	Deposit Rate	-0.40%	1.5%	-1.9%	Cut	Mar-16
Japan	Developed	Policy Rate Bal	-0.10%	0.2%	-0.3%	Cut	Jan-16
Denmark	Developed	Discount Rate	0.00%	1.5%	-1.5%	Cut	Jan-15
UK	Developed	Bank Rate	0.50%	3.0%	-2.5%	Hike	Nov-17
Czech Republic	Developed	Repo Rate	0.50%	2.9%	-2.4%	Hike	Nov-17
Norway	Developed	Deposit Rate	0.50%	1.2%	-0.7%	Cut	Mar-16
US	Developed	Fed Funds Target	1.00%	2.0%	-1.0%	Hike	Jun-17
Canada	Developed	Overnight	1.00%	1.4%	-0.4%	Hike	Sep-17
Australia	Developed	Cash Rate	1.50%	1.8%	-0.3%	Cut	Aug-16
Poland	Developed	Repo Rate	1.50%	2.1%	-0.6%	Cut	Oct-14
South Korea	Emerging	Repo Rate	1.50%	1.3%	0.2%	Hike	Nov-17
Taiwan	Emerging	Discount Rate	1.50%	0.4%	1.2%	Cut	Mar-16
Peru	Emerging	Policy Rate	3.25%	1.5%	1.7%	Cut	Nov-17
Indonesia	Emerging	Repo Rate	4.25%	3.3%	1.0%	Cut	Sep-17
China	Emerging	Lending Rate	4.35%	1.9%	2.5%	Cut	Oct-15
Colombia	Emerging	Repo Rate	4.75%	4.1%	0.6%	Cut	Nov-17
India	Emerging	Repo Rate	6.00%	3.6%	2.4%	Cut	Aug-17
South Africa	Emerging	Repo Rate	6.75%	4.8%	2.0%	Cut	Jul-17
Mexico	Emerging	Overnight Rate	7.00%	6.4%	0.6%	Hike	Jun-17
Brazil	Emerging	Target Rate	7.00%	2.7%	4.3%	Cut	Dec-17
Turkey	Emerging	Repo Rate	8.00%	13.0%	-5.0%	Hike	Nov-16
Russia	Emerging	Key Policy Rate	8.25%	2.5%	5.8%	Cut	Oct-17

Pension Partners @CharlieBilello



Share of zombie firms[3]

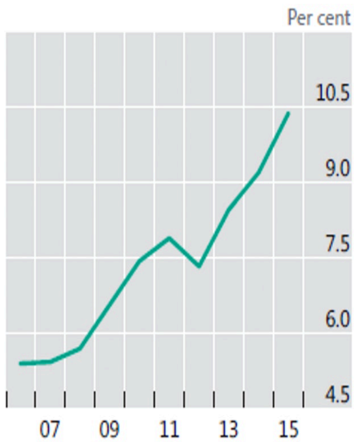
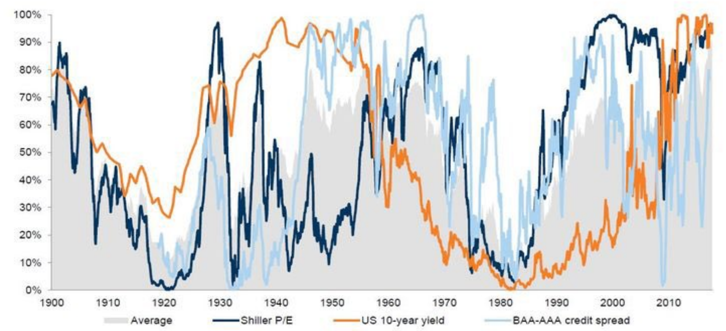
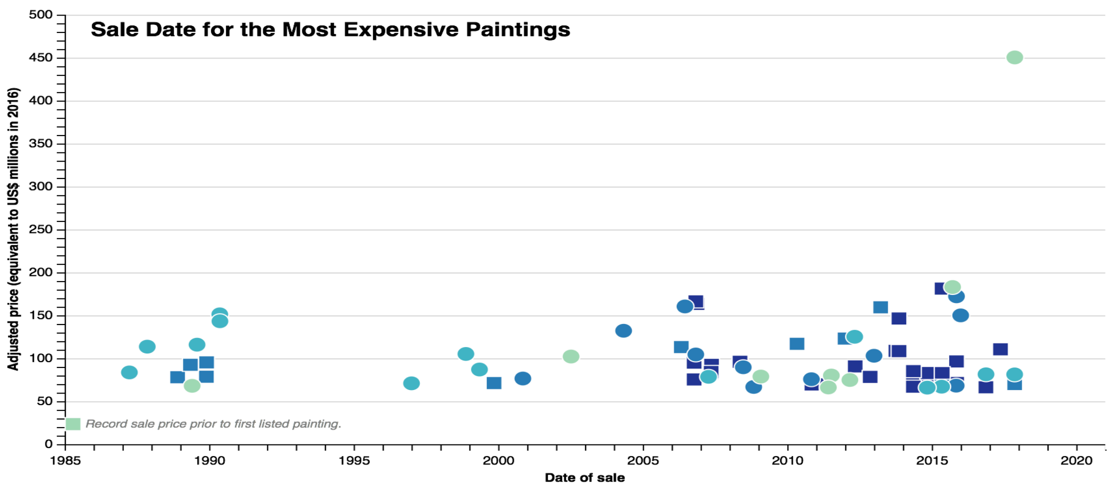
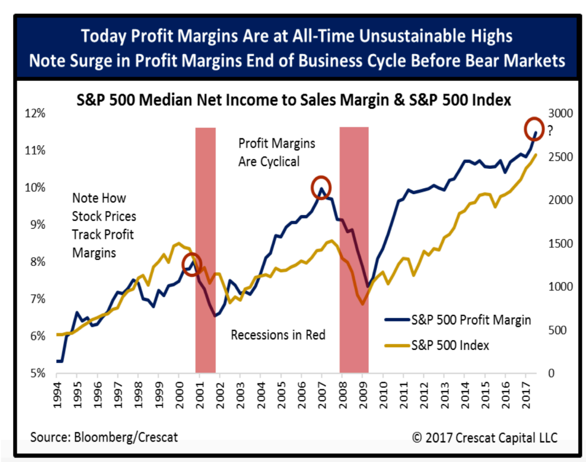


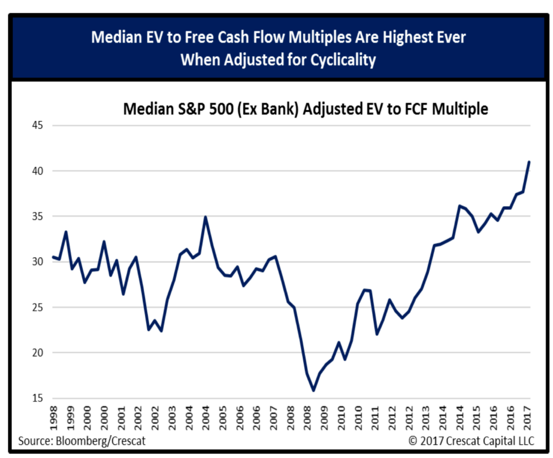
Exhibit 12: Valuation frustration - both bonds and equities appear expensive
Valuation percentile (since 1871 for S&P 500 & US 10-year yields, 1919 for BAA spreads)

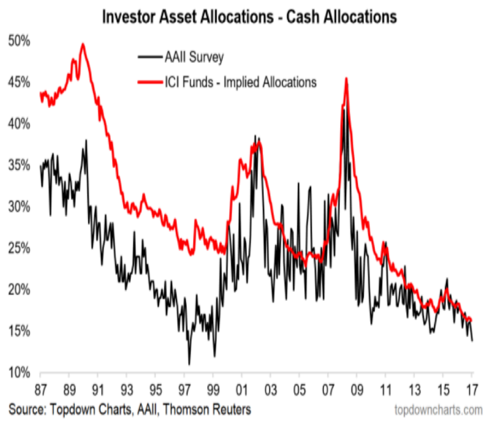


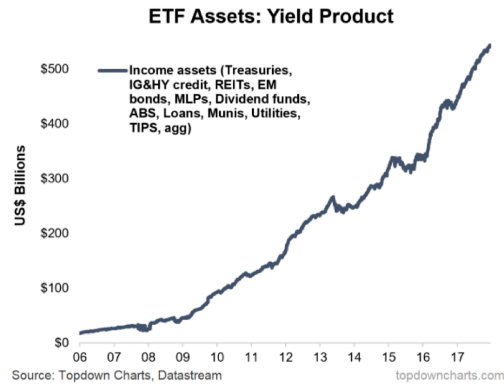
Source: Shiller, Goldman Sachs Global Investment Research











Monthly data
Source: BofA Merrill Lynch Global Equity Strategy, Global Financial Data, Bloomberg

A lifetime…

In the frontispiece to Security Analysis Graham quoted Horace "Many shall be restored that now are fallen and many shall fall that are now in honor". 52 years after I first read those lines, my appreciation for what they say about business and investments continues to grow.
- Warren Buffett

We never started the Fund as a commercial (private) banking product. It was set up to be a lifetime compounding vehicle. Lifetime sounds anathema to a world where short attention spans rule and everything is just a click away. In the 1970s the average investor held a fund for more than 16 years. Today you are lucky if an investor holds an investment fund for a year or so. So, we are very grateful to have all of you as long-term partners on this long journey.

On that journey, survival is the only road to riches. The reason this is important is that successful investing depends on compounding good returns over very long periods of time, and while the returns are obviously important, it is the – always unappreciated – compounding over time that really does all the hard work. Because over large periods of time, small differences in returns generate large differences in "ultimate wealth."

Most of the time compounding does not seem to work and is hence overlooked and unappreciated. We should always keep in mind the stonecutter of Jacob Riis: "*When nothing seems to help, I go and look at a stonecutter hammering away at his rock perhaps a hundred times without as much as a crack showing in*

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it. Yet at the hundred and first blow it will split in two, and I know it was not that blow that did it, but all that had gone before." All strategies and processes underperform at always too long times. How one behaves during these difficult times, by figuratively keeping on hammering away when no crack seems to be appearing, is perhaps the most important determinant of long term investment success.

Morgan Housel of The Collaborative Fund describes this overlooked compounding process as follows: "The unassumingly strong base is rooted in the same thing: Compounding is not intuitive, so it's systematically overlooked and underappreciated. Michael Batnick once explained it. If I ask you to calculate 8+8+8+8+8+8+8+8+8 in your head, you can do it in a few seconds (it's 72). If I ask you to calculate 8x8x8x8x8x8x8x8x8, your head will explode (it's 134,217,728).
It is so easy to overlook how powerful it can be to take something small and hammer away at it, year after year, without stopping. Because it's easy to overlook, we miss the key ingredients of what caused big things to get big. "

But for the compounding to really work you thus have to avoid very large losses and let time do the heavy lifting. And because of that our central aim is survival through a wide range of scenarios. Unfortunately, it is close to impossible for people to grasp the concept of (a range of) probabilities.

"But I've come to realize that I was wrong about a major aspect of probabilities. They are inherently hard to grasp. That's especially true for an individual event, like a war or election. People understand that if they roll a die 100 times, they will get some 1's. But when they see a probability for one event, they tend to think: Is this going to happen or not?"
- David Leonhardt, NY Times, December 2017

Real world exposure cannot be described in a story that is based on as single probability, but people only want to hear a single story with a clearly articulated prediction. Moreover, ex post people can only imagine the reality of that one outcome.

"I tell my father's story of the gambler who lost regularly. One day he heard about a race with only one horse in it, so he bet the rent money. Half way around the track, the horse jumped over the fence and ran away."– Howard Marks

And when it comes to financial stories (cf. supra graph) you can't even blame them, because whenever the story they we were sold (!) didn't work out, the central banks came to their rescue. So for more than 30 years (!) every financial story was backed by the central banks. There was only one horse in the race and it was held in check by the central banks.

But capital must be invested on the basis of preparedness for a range of potential outcomes, not based on a single point forecast where you bet everything on red. In life and investing the biggest risk cannot be reduced to one number.

So this is how we always have defined the Fund's investment goal: to produce satisfactory long-term returns, but also and even more importantly, to first of all position the Fund to be able to survive a wide set of outcomes, including macro-economic environments that are completely unexpected (e.g. one day the horse may jump over the fence and run away). Down is temporary. Down is inevitable. But we never want to be down and out.

With that goal always on our mind we continue to look for investment asymmetries: investment opportunities with a large margin of safety, i.e. where the upside potential exceeds the downside risk by a large margin.

No one knows how and when this latest bull market will end, but when it does the particulars will not be important. The economist Hyman Minsky once noted that each state nurtures forces that lead to its own destruction. So at current market valuations, one should expect low, if not negative returns. And just remember Charlie Munger's comment for when it all seems easy: "It's not supposed to be easy. Anyone who finds it easy is stupid."

What?! (part 1)

"During the latter stage of the bull market culminating **in 1929, the public acquired a completely different attitude towards the investment merits of common stocks**… Why did the investing public turn its attention from dividends, from asset values, and from average earnings to transfer it almost exclusively to the earnings trend, i.e. to the changes in earnings expected in the future? The answer was, first, that the records of the past were proving an undependable guide to investment; and, second, that the rewards offered by the future had become irresistibly alluring.

Along with this idea as to what constituted the basis for common-stock selection emerged a companion theory that common stocks represented the most profitable and therefore the most desirable media for long-term investment. This gospel was based on a certain amount of research, showing that diversified lists of common stocks had regularly increased in value over stated intervals of time for many years past.

These statements sound innocent and plausible. Yet they concealed two theoretical weaknesses that could and did result in untold mischief. The first of these defects was that they abolished the fundamental distinctions between investment and speculation. The second was that they ignored the price of a stock in determining whether or not it was a desirable purchase.

The notion that the desirability of a common stock was entirely independent of its price seems incredibly absurd. Yet the new-era theory led directly to this thesis… An alluring corollary of this principle was that making money in the stock market was now the easiest thing in the world. It was only necessary to buy 'good' stocks, regardless of price, and then to let nature take her upward course. The results of such a doctrine could not fail to be tragic."

Source: Benjamin Graham & David L. Dodd, Security Analysis, 1934

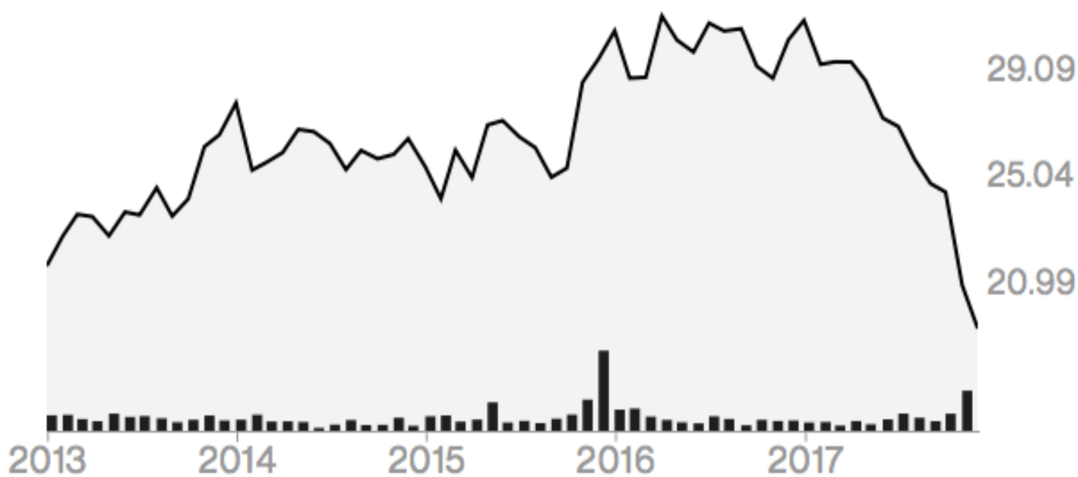
What?! (part 2)

"Let's return to the example of Coca-Cola. Five years ago its stock price was $27 (today it's $42), earnings were $1.50 (today $1.69), and investors collected about $5.90 of cumulative dividends, or about a 4 percent annualized return on the $27 purchase price. If you'd bought Coke's stock five years ago, your annual total return (price appreciation and dividends) would have been about 13 percent a year – 4 percent from dividends and 9 percent from stock appreciation. The stock appreciated for two reasons: earnings grew 2 percent a year and P/E increased 7 percent a year (from 18 to 25). In other words, a 13 percent total return = 4 percent dividends + 2 percent earnings growth + 7 percent P/E expansion. (It took me two whole minutes to come up with these rough calculations; I am trying to be vaguely right here, not precisely wrong). Anyone who bought the already fully valued Coca-Cola stock five years ago made a great total return of 13 percent, not because the business did well – the fundamental return from earnings growth and dividends was only 6 percent – but because its P/E ratio went from high (18) to very high (25)."

Source: http://contrarianedge.com/2016/11/15/dangers-dividend-obsession/

What?! (part 3)

"General Electric is the latest case in point. As *Bloomberg* reported in a June 16th article headlined "The $31 Billion Hole in GE's Balance Sheet That Keeps Growing," **GE spent roughly $45 billion on share repurchases in 2015 and 2016 — at substantially higher stock prices — while a $30 billion- plus shortfall was building in its pension plans.** Moreover, during its recent analyst meeting, management disclosed that it would have to borrow money to fund a $6 billion contribution to its pension plans next year, as well as cut its 2018 capex by 26%."



Source: https://latest.13d.com/cannibalizing-effect-of-share-buybacks-parallels-with-japans-bubble-years-c9e06b2fab43

What?! (part 4)

Amazon's stock history and the importance of patience:

Time Period	High	Low	Drop From High to Low
April 1999-Aug. 1999	$105.06	$44.78	(57%)
Dec. 1999-Sept. 2001	$106.69	$5.97	(94%)
Oct. 2003-Aug. 2006	$59.69	$26.07	(56%)
Dec. 2007-Nov. 2008	$94.45	$37.87	(60%)

DATA SOURCE: GOOGLE FINANCE.

Source: https://www.fool.com/investing/2016/06/26/amazon-stocks-history-the-importance-of-patience.aspx

What?! (part 5)

"What is the point of asset allocation? Making good-sized bets and winning.

If you mean to offer a useful asset allocation service to institutions, one that is designed to beat benchmarks and add value as well as lower risk, then you must make bets. And when there are great opportunities, which is all too often not the case, you must make big bets. If you mean only to tickle the allocation with slight moves, you may have a good framework for coffee time conversation with clients but you are not going to make a difference. Ever. If you are not prepared to put considerable career or business risk units on the table (and be prepared to persuade the clients' managers to do the same!), for example, in a classic equity bubble like 2000, or a classic housing bubble with associated junk mortgage paper in 2007, then you should not offer the service. Let the client index the allocation, as many do. **Given plenty of company they can at least sleep well, knowing that if they run of a cliff, which they will do every 10 or 15 years, they will not be noticed in the herd. Keynes explained career risk (and how it encouraged momentum investing) first and still best in Chapter 12 of The General Theory in 1936: Never, ever be wrong on your own. If you are "you will not receive much mercy."** Yet, he also pointed out earlier in 1923 that for advice to be useful it needs to rise above faith in long-run regression to normal. "Tis long run," he famously said, "is a misleading guide to current affairs. In the long run we are all dead. Economists [and market gurus] set themselves too easy, too useless a task, if in tempestuous times [such as bull markets] they can only tell us that when this storm is past the ocean is fat again." And this unusual "tempest" of way over old-normal prices has lasted for 20 years and still continues.

The Catch 22 of asset allocation: career risk (and clients' patience)

The Catch 22 of trying to give useful asset allocation advice is that you cannot expect to be right all the time**. You will make mistakes, mostly in timing, but possibly also in analysis, and you will pay a price. Your objective is to be as aggressive as you can be and just not lose too much business. Some cycles are well-behaved and sometimes most of us, anyway, get lucky.** But once in a dreaded while opportunities that were already brilliant become incredibly brilliant just as early 1998 broke out above the previous record P/E on the S&P of 21x in 1929 and then went on to 35x! **So there is no easy answer. You can know in your bones what to do but still not have enough career risk units up your sleeve, or the natural risk-taking tolerance to do it.** Tat is, as we like to say, why these opportunities get to exist in the first place. It would certainly help if your firm is designed to withstand some considerable career and business risk. Independence is good**. Looking back, 1999 seemed to prove that no large investment house felt that it could afford the client loss of exiting the market early. Overwhelmingly they rode the market up and rode it down.** And the one notable outlier changed its mind at the 11th hour and moved money into growth stocks from a very value-based approach. None of them was in that sense offering useful asset allocation advice. The proof of the pudding was in the degree to which the severe 50% losses in 2000-02 and in 2008-09 were avoided or not. Ingenious client communication and preparation on such occasions will certainly reduce the commercial pain of an error, but will by no means remove it."

Source: https://www.gmo.com/docs/default-source/public-commentary/gmo-quarterly-letter.pdf?sfvrsn=50

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

In the fourth quarter we sold our investments in Equity Commonwealth and RMR.

Disinvestment	*Entry Price*	*% of Portfolio*	*Return*
Equity Commonwealth	22,20 usd	6,21%	50,99%
RMR	27,31 usd	2,96%	111%

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 about investing and second-level thinking:

https://www.themacrotourist.com/posts/2017/05/10/an-epic-trading-tale-from-norway/

A must read about how the market is always right (note the irony please):

https://pensionpartners.com/the-market-is-always-right/

Administration and the next update

You can expect more email communication with respect to the ongoing administrative transfer in the coming weeks. In the meantime, please email or call us with any questions you have.

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

Happy New Year!

The Tartaros Team

2 Fund Overview

2.1 General Overview (end of Q4 2017)

	Asset Class
Equities	50,96%
Preferred Equities	1,80%
Corporate Bonds	2,34%
Cash	44,90%
	100,00%

	Currencies
USD	49,22%
EUR	18,28%
CAD	13,22%
YEN	11,39%
HKD	7,03%
NOK	0,86%
	100,00%

	Industry (as % of Fund)
Mining	6,48%
Services	7,01%
Pharma	2,92%
Energy	1,26%
Telco & Info	6,98%
Basic Industries	9,22%
Mining Services	0,31%
Retail-Wholesale	10,05%
Real Estate	10,29%

2.2 Fund Positions

We have no short positions and no leverage. We are invested long in 30 positions.

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

Market Capitalizations in USD	*% of equities invested*
> 5 Billion	10%
1< 5 Billion	17%
0,5 < 1 Billion	10%
< 0,5 Billion	63%

Position	*% of portfolio*
Cash	44,90%
Investment 1	6,53%
Investment 2	6,03%
Investment 3	4,39%
Investment 4	3,67%
Investment 5	3,09%

It should be noted that all numbers are approximations.

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2.3 NAV series

TARTAROS FIS SCA GLOBAL VALUE CL A CAP	210,763
TARTAROS FIS SCA GLOB VALUE S CAP 311216	97,525
TARTAROS FIS SCA GLOB VALUE T CAP 310317	95,199
TARTAROS FIS SCA GLOB VALUE U CAP 300917	102,111

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