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1 General Overview

Sunday, 9 April 2016

It does not matter how frequently something succeeds if failure is too costly to bear.

- Nassim Nicholas Taleb, *Fooled by Randomness*, 2001

One of the great bits of stupidity in the last 25 years of misallocated capital – thanks to Greenspan, Bernanke, Yellen and their foreign imitators – has been a complete abdication of managing risk, because doing so would have made you look stupid for so long that no one would stick around. Then when change happens, it happens violently, and as I have said many times along the way to this point, certain scenarios go from being impossible to inevitable literally in a matter of days.

- Bill Fleckenstein, February 2016

Dear Partners:

The Fund finished the first quarter of 2015 -1,62% in the red, versus -8,04% for the Eurostoxx 50 and versus -5,22% for the MSCI World Index. The Net Asset Value of the Fund is 193,61 (cf. part 2.3 for all the NAVs of all series). The second quarter got off to a negative start with the Eurostoxx 50 down -3% and the MSCI World Index down almost -2%. We started the first full week of the second quarter just above the flat-line.

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)*

2016	jan	feb	mar	apr	may	jun	jul	aug	sep	oct	nov	dec	ytd
Fund	-2,87	1,59	-0,31										-1,62
Msci world	-6,33	0,86	0,33										-5,22
Eurostoxx 50	-6,81	-2,44	1,15										-8,04

*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 2016 results reported above are unaudited estimates and may be subject to change.

	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
Annualized	9,98	3,57	3,15	10,3	4,08	5,92
Cumulative	96,81	28,74	25,02	105,80	33,42	51,32

More of the same

Well 30-40% of developed bond markets now have negative yields and 75% of Japanese JGB's do. Still who cares about them, just buy high yield bonds or even stocks to avoid Zeno's paradoxical trap. No! All financial assets are ultimately priced based upon the short term interest rate, which means that if an OBL – 5 year Bunds – investor loses money, then a stock investor will earn much, much less than historically assumed or perhaps might even lose money herself. Yields have been at 0% or negative for years now across most developed markets and to assume that high yield bond and equity risk premiums as well as P/E ratios have not adjusted to this Star Trek interest rate world is to believe in – well to believe in Zeno's paradox.

- Bill Gross, Zeno's Paradox, March 30 2016



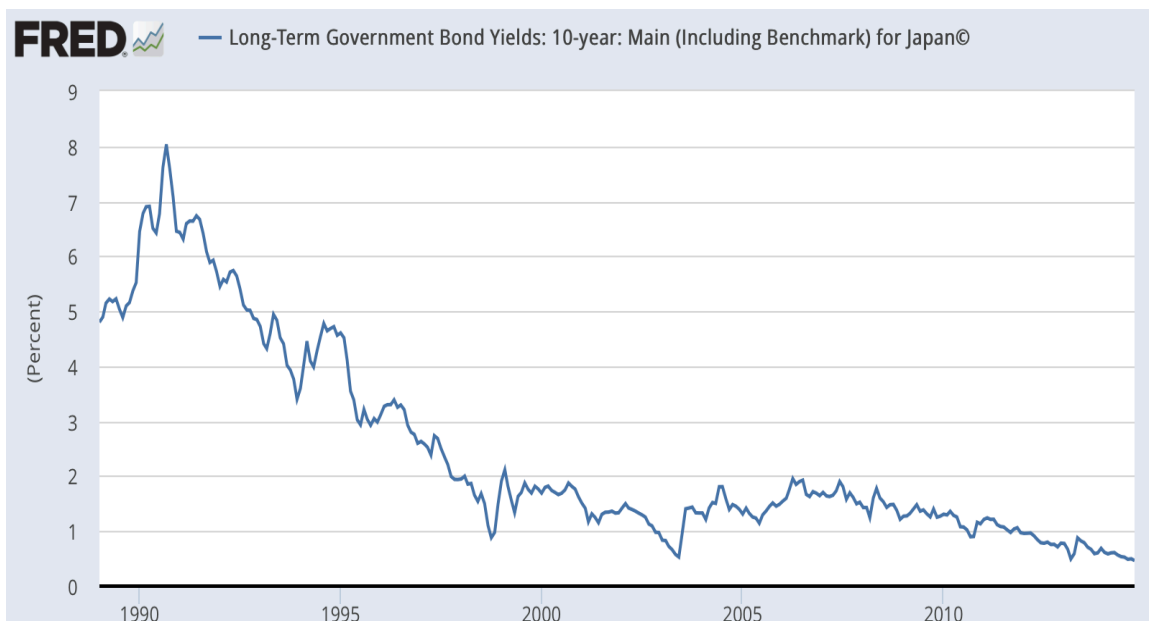
The financial markets had a turbulent first quarter. At one point during the first quarter the Eurostoxx 50 was down 18% for the year and the MSCI world index down almost 15%. The Fund was weathering the storm nicely and had only declined about 3,5%. As the markets were turning negative, we as investors were turning positive, because market declines are very fertile hunting grounds for good (read: cheap) investment opportunities. But once again, the central banks came to the rescue of the already artificially propped up financial markets.

On January 29, almost a week after stating that a move to negative interest rates was not under consideration, the Bank of Japan (BOJ) announced a rate cut to -0,1%. Two weeks later the governor of Japan reiterated that the BOJ was prepared to ease further. As a direct result of the BOJ market intervention the Japanese 10 year bonds is now trading at a negative yield!

Facing more economic headwinds in Europe, Mario Draghi came out on February 15, unsurprisingly just at the moment when the European stock markets were declining precipitously, declaring that the ECB would not hesitate to act. This statement was followed up on the 10th of March with new drastic measures including an interest rate cut to -0,4%, an increase in the amount of Quantitative Easing, and a widening of ECB purchases to include investment-grade corporate bonds.

Finally, on Wednesday the 16th of March, Janet Yellen surprised the financial markets with her dovish announcement that the global economic and financial developments continue to pose risks to the U.S. economic growth, and subsequently revised down the Federal Reserve's path for further interest rate increases.

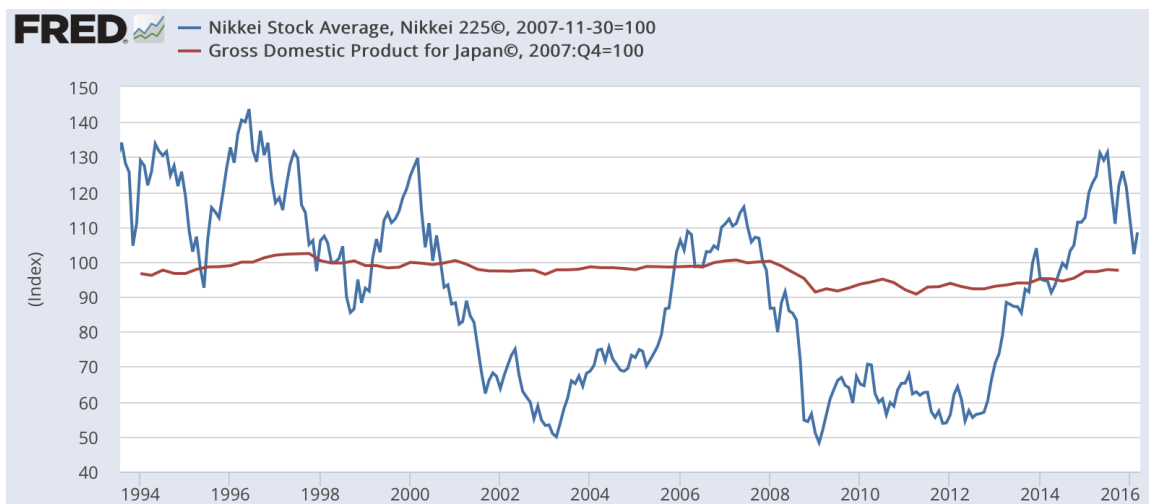
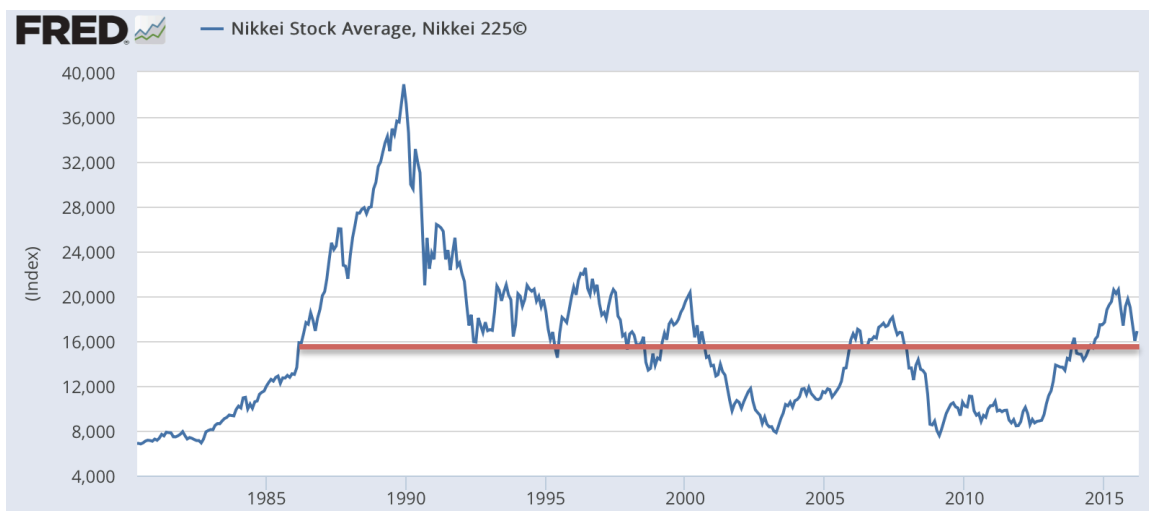
An epic recovery in risk assets since mid-February was the result of all of this; the past six weeks rank as one of the biggest risk-on rallies since the great financial crisis!



Since the beginning of the 1980s the central banks have only known one solution to every economic down-turn: lowering interest rates and pushing more debt onto the economy. Over the past 8 years this approach has been taken to the extreme. By directly creating financial distortions (negative yields), thus

enabling unprecedented issuance of speculative grade securities (everybody is reaching for yield in a world of negative yields) and hence repeatedly and increasingly diverting economic savings toward speculative investments (debt-financed stock buybacks at historically high valuations), the concerted behavior of central banks has only succeeded in keeping financial assets at an extremely elevated level (a bubble in everything?). Instead of historically generating economic growth via a wealth effect and its trickle-down effect on the real economy, negative interest rates and the expansion of central bank balance sheets via quantitative easing are starting to lose its power. This latest debt-fuelled expansion appears to be reaching an ending of sorts.

In any case, how ignorant must we be to believe that debt fuelled financial bubbles will carry us to prosperity without consequences? How will all of this end? Nobody really knows. But if we have to venture a guess, we would look in the direction of Japan and its economic trajectory since the beginning of the 1990s for inspiration(cf. supra and infra: 3 charts)

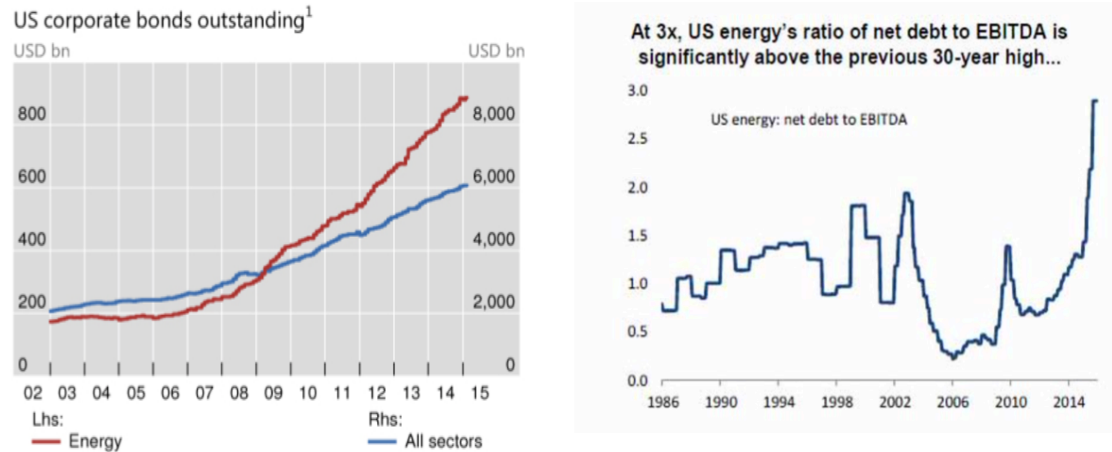


We continue to find the current investment environment a very challenging one, given that world stocks remain at valuation levels ranging from expensive to extremely expensive relative to historical norms. At the same time, despite unprecedented monetary measures, global economic growth remains anemic. For all kinds of reasons – mentioned here above and below, and in previous investment letters – we are

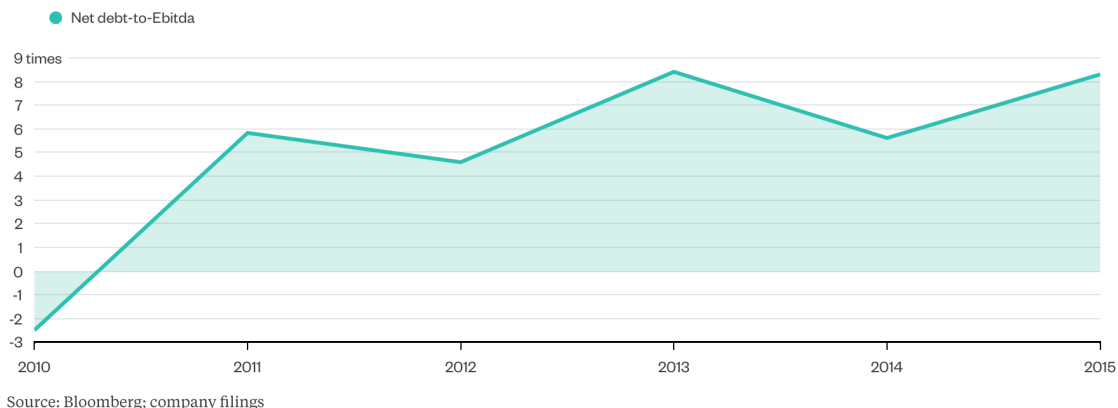
unfortunately and to our increasing frustration still not being paid for taking on substantial investment risk.

It is an undisputable fact that many publicly traded companies have stretched their balance sheets in recent years by taking on considerable debt at low interest rates to make acquisitions or buy back stock. This has undeniably helped boost equity prices but may leave many businesses very vulnerable if credit conditions tighten or, more importantly, company performance deteriorates (cf. commodities sector for a very recent example).

The total debt (bonds and syndicated loans) of the global oil and gas sector, for instance, stands at roughly 3 trillion usd, 3 times what it was in 2006 (source: <https://www.bis.org/speeches/sp160205.pdf>)



And commodity companies in general on average had negative leverage five years ago and now it would take them more than eight years' worth of ebitda to clear their combined net debt obligations.



Case in point is Hudbay Minerals. Hudbay Minerals is a Canadian mining corporation that we invested in at the beginning of 2009 (and sold in that same year). At that point in the time Hudbay Minerals had a total market capitalization of 800 million cad, no debt and approximately 1 billion usd in cash. Today the whole company can be bought for approximately 1 billion cad, but the company also has a net debt position of 1,2 billion cad!

In any case, we expect that the trajectory of the financial markets may look quite a bit different the coming years than it has the last couple of years. We would not be surprised to see even more volatility and thus, hopefully for us, more opportunities to find great investment ideas.

The waiting game

In 1969 Warren Buffet closed down his investment partnership and made no public equity investments for Berkshire Hathaway until 1973! The price-earnings ratio for the S&P 500 dropped from 20 to approximately 7 in that period. In a Forbes Magazine article from 1974 he said that he felt “Like an oversexed guy in a harem. This is the time to start investing.”

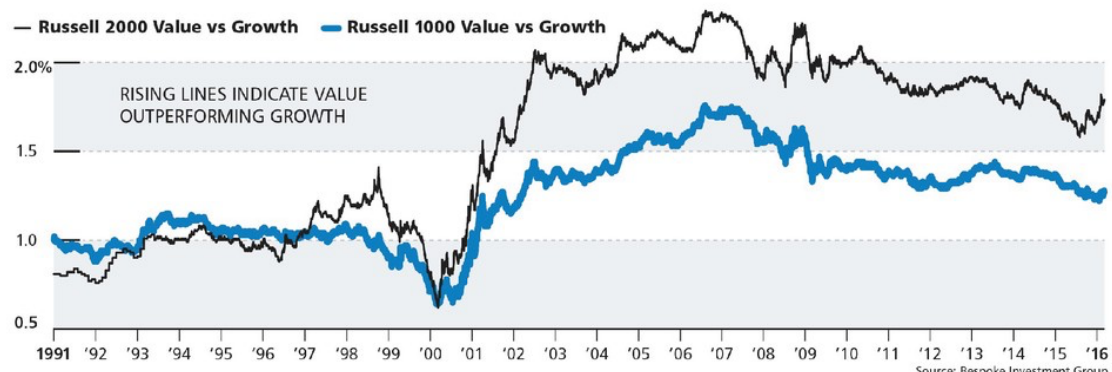
And again, from 1984 until 1987, Warren Buffett did not buy a single new equity position for the Berkshire Hathaway portfolio. Berkshire Hathaway was sitting on a mountain of cash, and still he did nothing. In the beginning of 1988, Berkshire used that cash pile to start buying shares in Coca-Cola. He ended up buying 5% of Coca-Cola; a stake that represented 25% of Berkshire Hathaway’s book value by the time Warren Buffett was done buying it.

What was Warren Buffett doing from 1970 until 1973 and again from 1984 until 1987? Both periods epitomize one of the central tenets of value investing, i.e. successful investing requires the discipline and thus patience to make investments only during the relatively infrequent intervals when the markets are undervalued and opportunities are abundant, and to be patient during the long periods when markets are fully priced or overpriced and investment bargains are scarce. In 1998 during a Berkshire Hathaway annual meeting Warren Buffet summed it up this way: “We don’t get paid for activity, just for being right. As to how long we will wait, we’ll wait indefinitely!”

When asked what might be the most difficult thing when applying a value investment strategy one thing immediately comes to our minds. Doing nothing (i.e. not investing)! And even if an investment manager has the discipline a value investor needs, he might not have the right (professional) environment to succeed. The institutional and personal framework of constantly benchmarking a performance against an index does not allow the time needed for an investment strategy to prove its merits. Doing nothing and how difficult it is, is exactly what came to mind when we stumbled upon the following chart in a Barron’s article titled “Move Over, Facebook and Netflix”.

WHERE’S THE VALUE?

After a period of extreme underperformance, value stocks large and small could shine. Growth stocks have outperformed since the financial crisis—until this year.



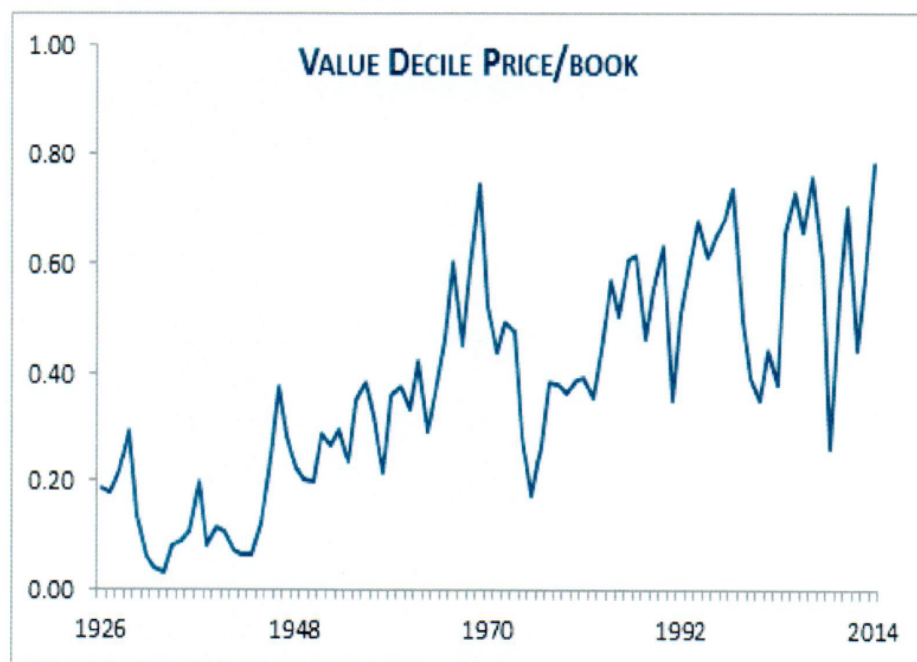
The argument between growth and value investors, one of the oldest in the world of investing, can be boiled down to this one question: What is a better long term investment strategy, high priced growth investing or value investing? Two decades of data compiled by finance professors Eugene Fama and Ken French, show that the cheapest 30 percent of U.S. stocks based on the price-to-book ratio returned 13,7

percent annually to investors from July 1926 to December 1995, whereas the most expensive 30 percent of U.S. stocks returned only 9,6 percent over that same period. The data also show that the cheapest stocks had beaten the most expensive stocks 91 percent of the time over rolling ten-year periods. (source: Bloomberg)

But over the past seven years expensive momentum / growth stocks have outperformed value stocks, i.e. the longest streak ever! In 2016 the spread between value and growth (for the Russell 1000 index) was especially pronounced with growth up 4% and value down 6.2%.

And to add injury to insult: value stocks as a group are the most expensive ever (cf. infra chart VIC).

To state that the past 7 years have not been a value investors' paradise is more than an understatement! It has been the worst period ever to have been a (deep) value investor!



Other prior periods of growth outperformance were the Nifty Fifty market of 1966-1973 and the technology bubble of 1998-99. That first period is a time where Buffett was, as mentioned above, for the latter half of that period very inactive! And the technology bubble was a period where very famous value investors all had massive underperformance.

In 1999 Warren Buffett was publicly written off on the cover of Barron's ("Warren, what's wrong") while Berkshire Hathaway had a massive underperformance of almost 60% points versus the S&P 500 between the summer of 1998 and the end of 1999. Baupost, spearheaded by Seth Klarman, one of the best value investors ever, had an investment underperformance of more than 60% points during that period. And Julian Robertson actually had to close down his investment firm Tiger Management Corporation, even after a legendary 20-year track record. While the S&P 500 index climbed approximately 19% in 1999, the main Tiger fund declined 19%, prompting investors to withdraw their investments in his fund.

Mean reversion always takes too long, but in the end it always comes back into play, and prior periods of growth outperformance, such as the Nifty Fifty market of 1966-1973 and the technology bubble of 1998-1999, were followed by strong periods for value investing.

But although everybody does it, obsessing over relative performance is of course simply tilting at windmills. There will always be uncomfortably long periods of underperformance versus certain indices. It happens to the best of best; nobody who strays from the crowd (i.e. not being a closet-indexer) can escape this! That is just the nature of the beast when it comes to focusing on long-term absolute returns. The key is to stay disciplined and thus patient. A lot easier said than done of course.

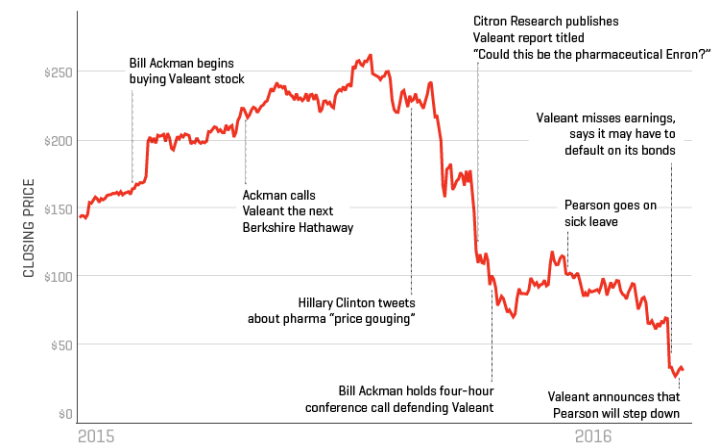
By searching for investment opportunities which offer the most attractive risk-reward equation in terms of absolute (margin of safety) and not relative value, our investment focus will automatically always be as much about preserving wealth – because lost euros are simply harder to replace than gained euros are to lose – as it will be about increasing wealth.

Schadenfreude?

Just recently we were talking to someone about Bill Ackman and his big investment in Valeant Pharmaceuticals. It is not every day that a company with a market cap of more than 80 billion usd and one that has a lot of well-know fund managers (Pershing Square, Value Act, John Paulson, etc.) among its largest shareholders, loses almost 90% in equity value in 8 months (more than 50% in just the last month). (cf. <http://fortune.com/ackman-valeant-ceo-pearson-inside-story/>)

To our big surprise he asked us if we were following this well mediatized story out of schadenfreude. The obvious answer is no! You will find no joy about somebody else's (financial) shipwreck, or even criticism here. We have made our own share of painful mistakes to be forever humbled. But we believe that is far less painful and financially costly if you can learn from somebody else's mistakes. So by taking the Valeant Pharmaceuticals story as a case study maybe valuable lessons can be learned vicariously?

VALEANT (NYSE: VRX) STOCK PRICE SINCE 2015



SOURCE: BLOOMBERG

STACY JONES / FORTUNE

What we really wanted to drive home here with this example is that just as it can be detrimental to focus on the performance of a certain stock market index in any short time period (i.c. years), the media will always remind you of the investors who left you for dust. And it is human nature to focus on these success moments (!) and to forget about all the hard luck stories and all the investments (bets?) that did not work out.

We all want to be Bill Ackman in 2014 (e.g. <http://www.forbes.com/sites/antoinegara/2015/05/06/bill-ackman-baby-buffett-howard-hughes/#5c53ff39389a>) or Michael Burry in 2007 (e.g. <http://www.vanityfair.com/news/2010/04/wall-street-excerpt-201004>), but we easily forget the unique set of circumstances that they encountered or how easily it could have gone completely awry.

In the end, you cannot just blindly copy what somebody else is doing. You have to remember that each and every investor has to follow his own process and trajectory (with ups but also downs), so

- Have an investment philosophy and approach (value investing has proven its merits time and

time again);

- Hold it strongly, but never forget to learn and increase your circle of competence;
- Accept that, no matter what, there will be sometimes uncomfortably long times where your approach does not work;
- And, of utmost importance, work within your own skill set and personality, not someone else's.

Michael Burry put it the following way:

"If you are going to be a great investor, you have to fit the style to who you are. At one point I recognized that Warren Buffett, though he had every advantage in learning from Ben Graham, did not copy Ben Graham, but rather set out on his own path, and ran money his way, by his own rules... I also immediately internalized the idea that no school could teach someone how to be a great investor. If it were true, it'd be the most popular school in the world, with an impossibly high tuition. So it must not be true."

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

In the 1st quarter of 2016 we started to sell down our investment in Algonquin Power, and have not made any new investments.

In the fall of 2008, the share price of Algonquin Power was obliterated by a combination of the market panic, and management's decision to lower the dividend distribution. The stock was trading at an expected dividend yield of 10% when management cut the distribution by almost 75% and announced it would use the cash flow to fund its growth.

Amazingly, the stock dropped so much that even after the 75% dividend cut, the company was still trading at a 7% dividend yield when the Fund made an investment in Algonquin Power in early summer of 2009. We bought shares around 3 cad, and over the course of our investment period the quarterly dividend increased from 0,02 cad to almost 0,10 usd; in total we received dividends after tax of approximately 1,25 cad.

Algonquin's management had demonstrated a successful track record of managing its operations and making accretive tuck-in acquisitions. Over the course of our investment period, management continued to diversify its portfolio by making selective investments in renewable energy and regulated utility assets.

When in the spring of this year, Algonquin announced that they would take over a complete company we re-assessed our investment thesis. Doing tuck-in acquisitions of individual (orphaned) assets can be a viable acquisition strategy. The general track-record of outright acquisitions however is very, very poor (with a few notable exceptions of course, e.g. Berkshire Hathaway).

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 the fact that mean reversion (the basis of value investing) is the only certain thing about markets and that (almost) no one is interested:

<http://www.psyfitec.com/2016/03/meme-reversion.html>

A must read about the "black swan that is Warren Buffett (note: one date error in the article):

<http://www.elenachirkova.com/images/articles/why-is-that-i-am-not-warren-buffett.pdf>

The Next update

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

We appreciate your continued trust!

The Tartaros Team

2 Fund Overview

2.1 General Overview (end of Q1 2016)

	Asset Class
Equities	45,59%
Corporate Bonds	1,83%
Cash	52,58%
	100,00%

	Currencies
USD	46,62%
EUR	28,93%
CAD	12,31%
YEN	3,49%
HKD	5,92%
DKK	2,73%
	100,00%

	Industry (as % of Fund)
Mining	7,75%
Services	4,00%
Pharma	0,07%
Energy	1,01%
Telco & Info	2,47%
Basic Industries	6,62%
Mining Services	0,85%
Retail-Wholesale	11,00%
Real Estate	12,01%

2.2 Fund Positions

We have no short positions and no leverage. We are invested long in 25 positions.

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

<i>Market Capitalizations in USD</i>	<i>% of equities invested</i>
> 5 Billion	11%
1< 5 Billion	18%
0,5 < 1 Billion	7%
< 0,5 Billion	64%

<i>Position</i>	<i>% of portfolio</i>
Cash	52,58%
Investment 1	8,20%
Investment 2	6,07%
Investment 3	3,86%
Investment 4	3,40%
Investment 5	2,57%

We sold the following investments:

<i>Disinvestment</i>	<i>Entry Price</i>	<i>% of Portfolio</i>	<i>Return</i>
Algonquin Power	3,07 cad	5,6%	550%

It should be noted that all numbers are approximations.

2.3 NAV series

TARTAROS FIS SCA GLOBAL VALUE CL A CAP	193,61
TARTAROS FIS SCA GLOB VALUE B CAP 31/12	94,36
TARTAROS FIS SCA GLOB VALUE C CAP 31/03	92,11
TARTAROS FIS SCA GLOB VALUE D CAP 30/06	98,21
TARTAROS FIS SCA GLOB VALUE F CAP 31/12/11	97,25
TARTAROS FIS SCA GLOB VALUE G CAP 31/03/12	95,85
TARTAROS FIS SCA GLOB VALUE H CAP 30/06/12	100,91
TARTAROS FIS SCA GLOB VALUE I CAP 30/09/12	92,66
TARTAROS FIS SCA GLOB VALUE J CAP 31/12/12	96,73
TARTAROS FIS SCA GLOB VALUE K CAP 31/03/13	97,83
TARTAROS FIS SCA GLOB VALUE L CAP 30/06/13	106,41
TARTAROS FIS SCA GLOB VALUE M CAP 30/09/13	101,60
TARTAROS FIS SCA GLOB VALUE N CAP 31/12/13	102,77
TARTAROS FIS SCA GLOB VALUE O CAP 31/03/14	100,18
TARTAROS FIS SCA GLOB VALUE P CAP 31/03/15	89,56
TARTAROS FIS SCA GLOB VALUE Q CAP 30/06/15	92,18
TARTAROS FIS SCA GLOB VALUE R CAP 31/12/15	98,37

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