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1 General Overview

Friday, 7 October 2016

"It's so hated that we probably all should own nothing but cash."
- Jim Rogers on RealVision TV, August 2016

Dear Partners:

The Fund finished the third quarter of 2016 -0,16% in the red, versus +4,88% for the Eurostoxx 50 and versus +2,83% for the MSCI World Index. The Net Asset Value of the Fund is 209,23 (cf. part 2.3 for all the NAVs of all series). Year-to-date the Fund is up 6,31% versus -8,04% for the Eurostoxx 50 and versus +0,22% for the MSCI World Index.

What a difference an intraday (movement) makes for a market quarter! Seemingly confirming the rumour, in the last trading hour of the European stock markets, Agence France Press reported that Deutsche Bank was nearing a 5,4 billion usd settlement with the U.S. Justice Department. This catalyzed a serious leg higher in Deutsche Bank's share price and lifted the European stock markets 3% from the intra-day bottom to the market close, as it appeared that unconfirmed sources had "fixed" the world's most dangerous bank (source: zerohedge). Of course this rumour – clearly noise – was denied the following day.

The last day of the quarter was also a turbulent day for the Fund, pushing the Fund from slightly in the plus for the quarter to just under 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	4,63	0,64	2,79	1,05	-1,17	-0,03				6,31
Msci world	-6,33	0,86	0,33	1,22	-0,50	2,10	3,63	-0,24	-0,53				0,22
Eurostoxx 50	-6,81	-2,44	1,15	0,77	0,72	-6,07	4,40	-0,03	0,49				-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.

2016 – Quarter 3 – Investment Letter

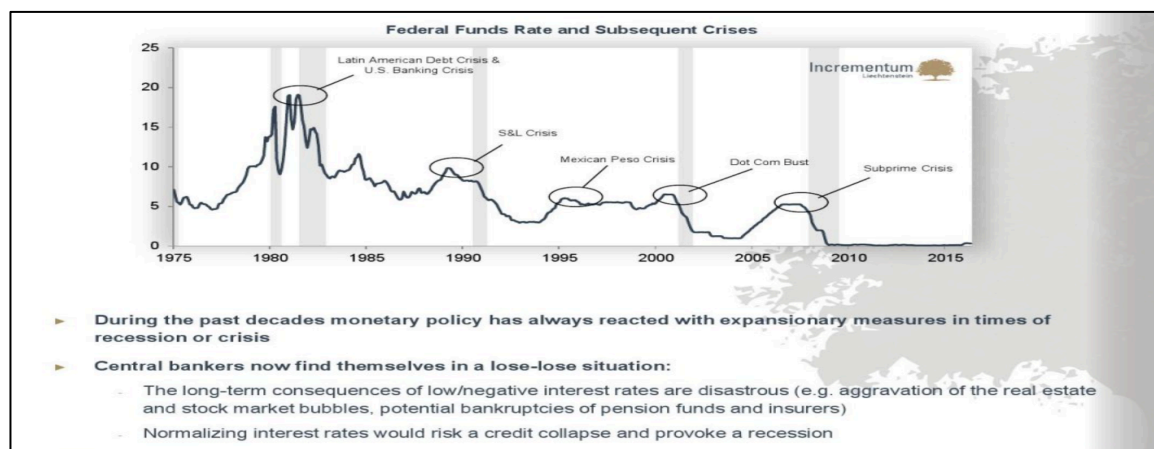
	Tartaros	EuroHedge Global Equity	Euro Stoxx 50	MSCI World	Tradition Fund Low Risk	Traditional Fund High Risk
2008	6,30	-3,82	-6,21	-10,90	-7,28	-19,78
2009	45,52	10,72	21,00	22,67	12,91	28,05
2010	32,64	4,87	-5,85	18,11	6,59	14,30
2011	-2,98	-6,16	-17,05	-4,59	-2,95	-12,27
2012	0,55	3,73	13,79	10,95	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 than just crazy times. It is surreal.

I don't want people to lose money, I want them to make it, and the way they act, most of them, you'd think their one objective in life was to get rid of every cent they have.

- The Razor's Edge, William Somerset Maugham, 1944

The passage of yet another quarter requires that we write an investment letter and retro-fit a narrative to explain what was quasi always pure noise (cr. supra Deutsche Bank and Eurostoxx 50 intraday market move for a small example of such noise). We have an immediate return environment brain, so we expect solutions, explanations and results almost immediately. Unfortunately investing – a very, very long term process – does not work that way (long term vs short term / signal vs noise).



source: Incrementum AG

There is a lot that continues to be extremely bizarre in today's financial world. What seems obvious to us is that due to unprecedented manipulation (read: lowering) of interest rates and continuously increasing expectations for a longer period of suppressed interest rates, rather than any improvement in economic conditions, quasi all financial assets are priced beyond perfection, leaving almost certainly no general margin of safety.

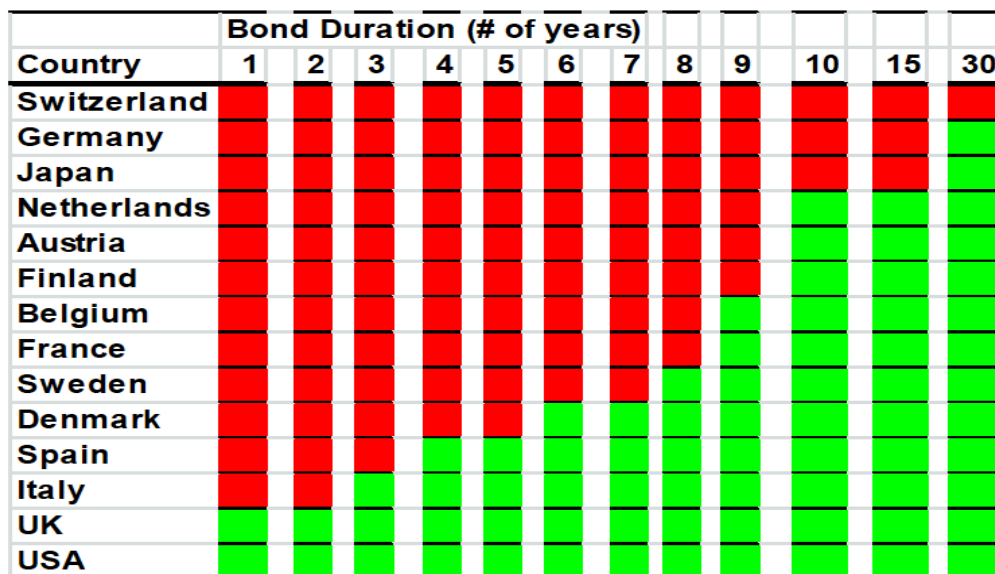
The markets are still assigning almost mythical insight and power to central bankers, who are believed to be omniscient and all-powerful but who are of course as fallible as anybody else. Case in point, they have driven the macro-economic environment over the past 35 years just like a man with a hammer sees every problem as a nail, by lowering interest rates again and again whenever the economy was in trouble (recession or crisis), regardless if that was the right long term solution or not.

Over the past seven years central banks have been doing even more and more of the same thing (expansionary monetary policy). And where do we stand today? Between 45% and 55% of all European government bonds now trade with a negative yield with durations as long as 15 years, and even more than 30 years in the case of Switzerland. In some political / economic blocs, it is now almost impossible to find positive-yielding government bonds. Nearly 80% of all Japanese and German bonds trade with a negative yield and 12 European countries have now issued two-year paper with a negative yield.

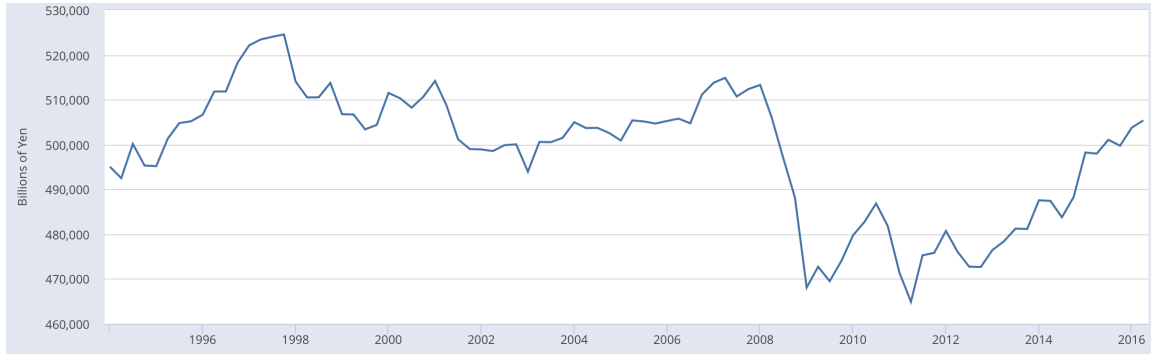
The universe of sub-zero yielding debt – primarily government bonds in Europe and Japan but also a mounting number of highly-rated corporate bonds – has grown to 13,4 trillion usd this quarter. Data tracked by Tradeweb put the value of negative yielding corporate bonds at 380 billion usd – a figure that includes euro denominated bonds maturing in the next year that are not captured by some of the main index providers. The total sum could be greater when counting bonds issued in Swiss franc or Japanese yen, data provider Markit noted (source: Financial Times).

It is just surreal!

Duration of negative yielding bonds (number of years). Red (Negative) / Green (positive)



The Fed Reserve lowered rates by more than 5% in the 2001 and 2008 easing cycles, helping many borrowers who would have otherwise defaulted. With interest rates at or below zero, what will the Federal Reserve and the other central banks do when the next recession hits? The SNB and BOJ are already neck deep in equity-buying experimentation. Is this also the next step for the European central bank?



source: St Louis Federal Reserve

And does anyone really believe all of this is actually working? The most obvious case study is Japan. GDP in Japan has not grown since the mid 1990s (cf. supra) and the stock market (Nikkei 225 cf. infra) has been in a wide trading range since the market peaked in 1989 at 39,000. Japan has been an unsuccessful laboratory for new economic and monetary policies for the past 25 years, as it was the first developed country to enter a deflationary environment after the bubble burst in the early 1990s.



The panacea of central bank easing seems to be running out. What will be next when the next big economic crisis hits? A cash ban, asset confiscation, helicopter money, etc.?

We have no clue when and how all of this is going to end. Negative interest rates distort Schumpeter's creative destruction process, a cornerstone of capitalism, and investors face, in our opinion, all kinds of tail risks. Financial markets are not moving freely. When they do – and they eventually will – they will move with an unforgiving vengeance.

Howard Marks observed the following in his book *The Most Important Thing*:

"Since many of the best investors stick most strongly to their approach – and since no approach will work all the time – the best investors can have some of the greatest periods of underperformance. Specifically, in crazy times, disciplined investors willingly accept the risk of not taking enough risk to keep up... Investment risk comes primarily from too-high prices, and too-high prices often come from excessive optimism and inadequate skepticism and risk aversion."

To say that we have and are witnessing crazy times – since 2008 – is an understatement. Moreover, this has been the longest stretch during which value investing as an investment strategy has been sub-optimal.

Jeff Bezos, founder and C.E.O. of Amazon inc, once explained his (strategic) thinking: “Our first shareholder letter, in 1997, was entitled, ‘It’s all about the long term.’ If everything you do needs to work on a three-year time horizon, then you’re competing against a lot of people. But if you’re willing to invest on a seven-year time horizon, you’re now competing against a fraction of those people, because very few companies are willing to do that. Just by lengthening the time horizon, you can engage in endeavours that you could never otherwise pursue. At Amazon we like things to work in five to seven years. We’re willing to plant seeds, let them grow – and we’re very stubborn. We say we’re stubborn on vision and flexible on details.”

So especially during these “crazy times” we take our cues from Jeff Bezos. We will stay stubborn on vision – long term value investing – and flexible on details (investment opportunities), because in order to succeed you must first survive.

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

In the 3rd quarter of 2016 we initiated another small investment. More on that in the near future.

An article about one of our holdings Equity Commonwealth:

http://www.horizonkinetics.com/sm_cash_as_liability_zell.asp

	Equity Commonwealth	Simon Property Group	Boston Properties
Cash	\$1,772	\$884	\$1,246
Total Assets	<u>4.912</u>	<u>31.380</u>	<u>18.964</u>
<i>Cash as a % of total assets</i>	<i>36.1%</i>	<i>2.8%</i>	<i>6.6%</i>
<hr/>			
Total Debt	\$1,557	\$22,924	\$9,934
Shareholders' Equity	<u>3.199</u>	<u>4.621</u>	<u>5.733</u>
<i>Debt/Equity</i>	<i>0.49x</i>	<i>4.96x</i>	<i>1.73x</i>
<hr/>			
<i>Price/Book Value</i>	<i>1.18x</i>	<i>14.33x</i>	<i>3.72x</i>

Source: SEC Filings; As of June 30, 2016

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 past and future equity returns:

<http://awealthofcommonsense.com/2016/09/the-john-bogle-expected-return-formula/>

A must read about the psychology of risk and reward:

<https://www.farnamstreetblog.com/2015/10/the-psychology-of-risk-and-reward/>

The Next update

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

Thank you for your continued trust!

The Tartaros Team

2 Fund Overview

2.1 General Overview (end of Q3 2016)

	Asset Class
Equities	52,40%
Corporate Bonds	1,94%
Cash	45,66%
	100,00%

	Currencies
USD	50,91%
EUR	22,61%
CAD	13,44%
YEN	4,66%
HKD	6,17%
DKK	2,21%
	100,00%

	Industry (as % of Fund)
Mining	8,85%
Services	6,22%
Pharma	0,05%
Energy	1,72%
Telco & Info	4,39%
Basic Industries	6,63%
Mining Services	0,84%
Retail-Wholesale	11,00%
Real Estate	12,52%

2.2 Fund Positions

We have no short positions and no leverage. We are invested long in 28 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	14%
1< 5 Billion	17%
0,5 < 1 Billion	7%
< 0,5 Billion	62%

<i>Position</i>	<i>% of portfolio</i>
Cash	45,66%
Investment 1	7,77%
Investment 2	6,36%
Investment 3	3,76%
Investment 4	3,55%
Investment 5	2,58%

It should be noted that all numbers are approximations.

2.3 NAV series

TARTAROS FIS SCA GLOBAL VALUE CL A CAP	209,23
TARTAROS FIS SCA GLOB VALUE B CAP 31/12	101,77
TARTAROS FIS SCA GLOB VALUE C CAP 31/03	99,54
TARTAROS FIS SCA GLOB VALUE D CAP 30/06	105,92
TARTAROS FIS SCA GLOB VALUE F CAP 311211	104,89
TARTAROS FIS SCA GLOB VALUE G CAP 310312	103,25
TARTAROS FIS SCA GLOB VALUE I CAP 300912	100,12
TARTAROS FIS SCA GLOB VALUE J CAP 311212	104,32
TARTAROS FIS SCA GLOB VALUE K CAP 310313	105,51
TARTAROS FIS SCA GLOB VALUE L CAP 300613	114,76
TARTAROS FIS SCA GLOB VALUE M CAP 300913	109,57
TARTAROS FIS SCA GLOB VALUE N CAP 311213	110,84
TARTAROS FIS SCA GLOB VALUE O CAP 310314	108,04
TARTAROS FIS SCA GLOB VALUE P CAP 310315	96,79
TARTAROS FIS SCA GLOB VALUE Q CAP 300615	99,62
TARTAROS FIS SCA GLOB VALUE R CAP 311215	106,10

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