



## 2016 – Quarter 4 – Investment Letter

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# 1 General Overview

Friday, 6 January 2017

*It is much harder psychologically to be unsure than to be sure; certainty builds confidence, and confidence reinforces certainty. Yet being overly certain in an uncertain, protean, and ultimately unknowable world is hazardous for investors... Those who reflect and hesitate make far less in a bull market, but those who never question themselves get obliterated when the bear market comes.*

- Seth Klarman, *Baupost Group, 2008*

Dear Partners:

The Fund finished the fourth quarter of 2016 3,53% in the plus, versus +9,52% for the Eurostoxx 50 and versus +8,78% for the MSCI World Index. The Net Asset Value of the Fund is 216,11 (cf. part 2.3 for all the NAVs of all series). The 2016 return for the Fund is 9,81% versus 0,72% for the Eurostoxx 50 – after an incredible 10% rally since the beginning of December! – and versus +9,02% for the MSCI World Index.

Below are the results of the Tartaros Global Value Fund since its inception on the 21<sup>st</sup> 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	-0,17	2,01	1,66	9,81
Msci world	-6,33	0,86	0,33	1,22	-0,50	2,10	3,63	-0,24	-0,53	-0,43	6,09	2,99	9,02
Eurostoxx 50	-6,81	-2,44	1,15	0,77	0,72	-6,07	4,40	-0,03	0,49	1,68	-0,10	7,83	0,72

\*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
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

### The inside vs outside view

*“There are two kinds of investors, be they large or small: those who don’t know where the market is headed, and those who don’t know that they don’t know. Then again, there is a third type of investor – the investment professional – who indeed knows that he or she doesn’t know, but whose livelihood depends upon appearing to know.*

- William Bernstein

Nassim Taleb was right when he stated that we don’t learn that we don’t learn. People are not soothsayers, but every year again, especially around the turning of the year, predictions are made. And every single time these predictions prove to be widely off the mark. Most of the time it is impossible to make a reasonable prediction! – Who would have thought that people would vote for Brexit and Donald Trump would be the next U.S. president? – But even harder is to predict what financial markets would do when unpredicted events happen.

John Maynard Keynes introduced the concept of the “Keynesian” beauty contest in Chapter 12 of his work, *The General Theory of Employment, Interest and Money* (1936):

*“It is not a case of choosing those [faces] that, to the best of one’s judgment, are really the prettiest, nor even those that average opinion genuinely thinks the prettiest. We have reached the third degree where we devote our intelligences to anticipating what average opinion expects the average opinion to be. And there are some, I believe, who practice the fourth, fifth and higher degrees.”*

Keynes believed that similar behavior was at work within the financial markets. This would have people pricing financial instruments not based on what they think their fundamental value is, but rather on what they think everyone else thinks their price estimate is, or what everybody else would predict the average assessment of value to be. So, even if you would have made the correct prediction, you would also have had predicted what expectations were priced into the financial markets. In financial markets, other people’s perception of reality influences price more than any underlying fundamentals; your own assessment, even if correct, is valueless if it is already reflected in the market price.

One can tackle the universe of investment opportunities as full of certainties, or one can analyze it probabilistically. Next time you want to make a prediction or hear someone make a prediction, just think of the concept “inside versus outside view”. As Michael Mauboussin wrote in his book *Think Twice*, we have a natural inclination to favor the inside view over the outside view. He wrote the following:

*An inside view considers a problem by focusing on the specific task and by using information that is close at hand, and makes predictions based on that narrow and unique set of inputs. These inputs may include anecdotal evidence and fallacious perceptions. This is the approach that most people use in building models of the future and is indeed common for all forms of planning.*

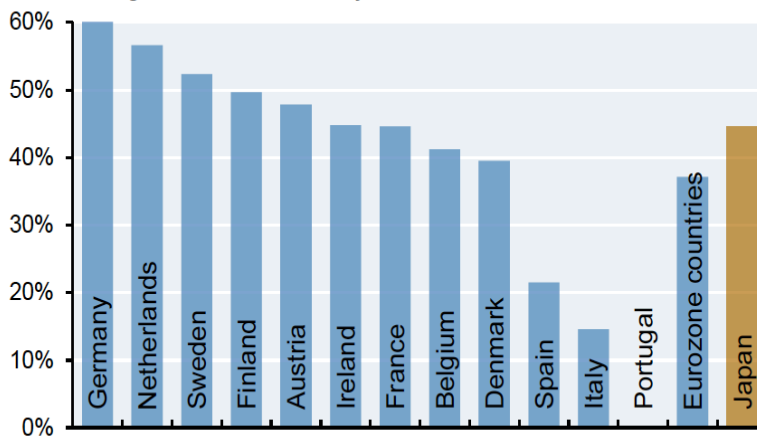
Compare that with the outside view:

*“The outside view asks if there are similar situations that can provide a statistical basis for making a decision. Rather than seeing a problem as unique, the outside view wants to know if others have faced comparable problems and, if so, what happened. The outside view is an unnatural way to think, precisely because it forces people to set aside all the cherished information they have gathered.... The outside view can often create a very valuable reality check for decision makers.”*

*What, then, is to be done? To make the best of what is in our power, and take the rest as it occurs.*  
- Epictetus, *Discourses*

### Government bonds trading below 0% yield

% of total government bonds by market value



Source: J.P. Morgan Securities LLC, JPMAM. December 15, 2016.

The ongoing central bank experimentation (cf. supra government bonds trading below 0%) combined with high overall market valuations (cf. infra equity valuations) leads us to believe that there are still bigger than priced-in risks out there. So what, then, is to be done?

## US, Europe and Japan equity valuations

Combined price-to-sales ratio on MSCI US, Europe and Japan equities, ex-financials and energy



Source: IBES, Datastream, Bloomberg, JPMAM. December 15, 2016.

Our focus is unchanged: searching for investment opportunities by analyzing intrinsic value and the holy trinity of risk (business, balance sheet and valuation risk) while always having the margin of safety in mind. And when we can't find enough of them to invest in, we just wait (cf. infra must reads: patience).

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

In the fourth quarter of 2016 we started selling our position in Vector Group. Vector Group had become a fund position of 8,8% after a 133,46% return.

When we started investing in Vector Group in the spring of 2014, the company was entirely off the radar of the sell side investment community; zero sell side analysts covered the stock. Vector Group was a largely un-followed company with a very profitable discount cigarette business, a 70% stake in the fast-growing real estate brokerage Douglas Elliman (DE), and valuable real estate (and public equity) holdings.

We perceived the margin of safety to be sufficiently high based on the sustainable cashflow (dividend yield (cash + shares) of 12,9%) and an alignment of incentives because of the large inside ownership (approximately 30%). Moreover, we believed at the time that the stock could increase in value as the company continued to grow profits from tobacco and DE, and monetize its real estate holdings.

We also sold Rand Logistics (1% fund position). Rand Logistics is a shipping company providing bulk freight transportation services throughout the Great Lakes region.

In the fourth quarter we initiated an investment in Dell Technologies (DVMT). DVMT is a VMware tracking stock. VMware (VMW) is a leading provider of virtualization software for data centers. The company was 80% owned by EMC, before EMC was acquired by privately owned Dell. In order to afford the transaction Dell offered cash and 0,11 DVMT shares per EMC share. DVMT is technically part of Dell, but its performance tracks the performance of a portion of Dell's stake (previously EMC's) stake in VMware, equal to 58% of the company. VMware is what Charlie Munger calls a cannibal: the company consistently uses its excess cash to repurchase its shares.

Our investment case is that eventually the discount vs VMW will narrow to some lower level and that VMW itself will continue to cannibalize itself, both providing a margin of safety.



It should be noted that we also acquired a 3% position in a Japanese electroplating chemicals company, and smaller investments in a Korean shipping company and the preferred shares of a Canadian real estate (management) company. More on these companies once we have increased the Fund's stake in both of them.

### 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

Three articles that prove and stress the fundamental importance of patience:

A must read about cash-rich, undervalued businesses that are consistently buying back shares:

<http://www.forbes.com/sites/janetnovack/2016/12/22/move-over-small-dogs-of-the-dow-here-come-the-uber-cannibals/#61480c803dea>

A must read about the fact that even god would get fired as an active investor:

<http://blog.alphaarchitect.com/2016/02/02/even-god-would-get-fired-as-an-active-investor/#gs.QbD5TKk>

A must read about the fact that a lot of Warren Buffet's performance is not due to stock picking, but because of his ability to endure psychological pain over long periods:

<https://viennacapitalist.com/2016/12/14/clients-abandoning-hedge-funds-the-case-of-hugh-hendry/>

Two articles about the fact that it is near impossible to preserve a family fortune across generations:

<http://time.com/money/3925308/rich-families-lose-wealth/>

<https://www.theatlantic.com/business/archive/2015/09/richest-families-grandkids-gilded-age/405892/>

### The 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.

Happy New Year!

The Tartaros Team

## 2 Fund Overview

### 2.1 General Overview (end of Q4 2016)

	Asset Class
Equities	51,79%
Corporate Bonds	1,93%
Cash	46,28%
	100,00%

	Currencies
USD	52,77%
EUR	21,53%
CAD	11,20%
YEN	7,05%
HKD	6,45%
NOK	1,00%
	100,00%

	Industry (as % of Fund)
Mining	6,83%
Services	4,56%
Energy	1,94%
Telco & Info	4,17%
Basic Industries	10,17%
Mining Services	0,67%
Retail-Wholesale	7,91%
Real Estate	15,52%

### 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:

<i>Market Capitalizations in USD</i>	<i>% of equities invested</i>
> 5 Billion	10%
1 < 5 Billion	17%
0,5 < 1 Billion	7%
< 0,5 Billion	66%

<i>Position</i>	<i>% of portfolio</i>
Cash	46,28%
Investment 1	6,56%
Investment 2	3,94%
Investment 3	3,48%
Investment 4	3,06%
Investment 5	3,05%

It should be noted that all numbers are approximations.

### 2.3 NAV series

TARTAROS FIS SCA GLOBAL VALUE CL A CAP	216,11
TARTAROS FIS SCA GLOB VALUE B CAP 31/12	105,33
TARTAROS FIS SCA GLOB VALUE C CAP 31/03	102,87
TARTAROS FIS SCA GLOB VALUE D CAP 30/06	109,63
TARTAROS FIS SCA GLOB VALUE F CAP 311211	108,56
TARTAROS FIS SCA GLOB VALUE G CAP 310312	106,86
TARTAROS FIS SCA GLOB VALUE I CAP 300912	103,44
TARTAROS FIS SCA GLOB VALUE J CAP 311212	107,97
TARTAROS FIS SCA GLOB VALUE K CAP 310313	109,20
TARTAROS FIS SCA GLOB VALUE L CAP 300613	118,78
TARTAROS FIS SCA GLOB VALUE M CAP 300913	113,41
TARTAROS FIS SCA GLOB VALUE N CAP 311213	114,72
TARTAROS FIS SCA GLOB VALUE O CAP 310314	111,82
TARTAROS FIS SCA GLOB VALUE P CAP 310315	100,44
TARTAROS FIS SCA GLOB VALUE Q CAP 300615	102,94
TARTAROS FIS SCA GLOB VALUE R CAP 311215	109,81

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