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1 General Overview

Saturday, 10 October 2015

It should be clear from the first element that the process has to begin with investors who are unusually perceptive, unconventional, iconoclastic or early. That's why successful investors are said to spend a lot of their time being lonely.

- Howard Marks, It's Not Easy, September 2015

Unfortunately, few would want to go up against the enormous mass of managers pursuing the trend. The reason is that their horizon is limited. If the mispricing in stocks does not correct itself in a relatively short while, the investment manager will see an erosion of his customers as he underperforms. It takes a very brave investment manager with infinitely patient investors to fight the trend, even if the trend is a deviation from fundamental value.

- Raghuram G. Rajan former Economic Counselor and Director of Research at IMF

Dear Partners:

The Fund finished the third quarter of 2015 -5,34% in the red, versus -9,34% for the MSCI World Index and versus -9,62% for the Eurostoxx 50. The Net Asset Value of the Fund is 198,80 (cf. part 2.3 for all the NAVs of all series). We are hugging the flat line year to date. We currently have a 46,97% cash position.

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)*

2015	jan	feb	mar	apr	may	jun	jul	aug	sep	oct	nov	dec	ytd
Fund	5,47	2,03	0,94	-0,26	-0,19	-2,41	-2,18	-2,81	-0,44				-0,07
Msci world	4,97	6,54	2,75	-1,99	2,29	-4,40	2,65	-7,82	-4,18				-0,16
Eurostoxx 50	6,52	7,39	2,73	-2,21	-1,24	-4,10	5,16	-9,19	-5,35				-1,63

*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.

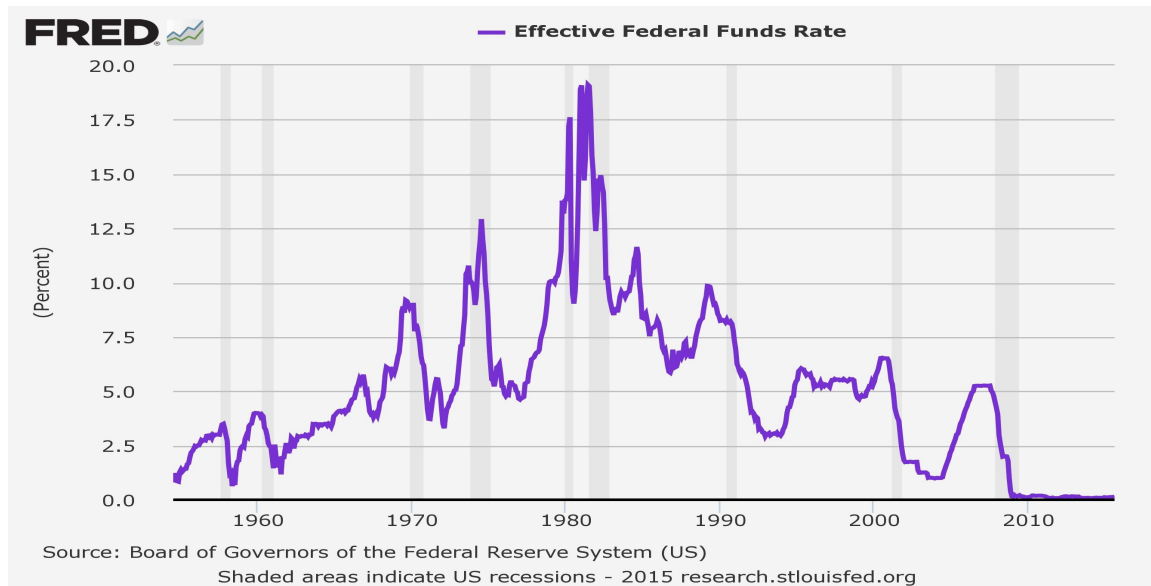
* The EURO STOXX 50 Index, Europe's leading Blue-chip index for the Eurozone, provides a Blue-chip representation of supersector leaders in the Eurozone. The index covers 50 stocks from 12 Eurozone countries.

*Please note that individual investor net returns will vary due to the timing of one's investment. The 2015 results reported above are unaudited estimates and may be subject to change.

2015 – Quarter 3 – Investment Letter

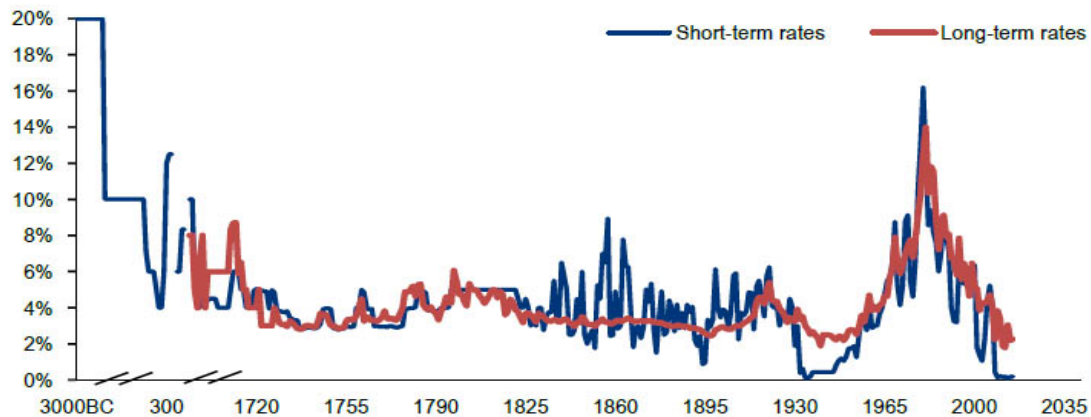
	<i>Tartaros</i>	<i>EuroHedge Global Equity</i>	<i>Euro Stoxx 50</i>	<i>MSCI World</i>	<i>Tradition Fund Low Risk</i>	<i>Traditional Fund High Risk</i>
2008	6,30	-3,82	-6,21	-10,90	-7,28	-19,78
2009	45,52	10,72	21,00	22,67	12,91	28,05
2010	32,64	4,87	-5,85	18,11	6,59	14,30
2011	-2,98	-6,16	-17,05	-4,59	-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	2,51	1,20	18,06	7,73	11,35
Annualized	11,64	3,50	3,01	10,59	4,32	6,12
Cumulative	99,00	23,65	20,38	87,60	20,96	30,19
80% of traditional funds underperform						
0.5% of traditional funds outperform more than 3% over the very long term						

Never before!



A couple of weeks ago everybody was waiting for a rate hike of the Federal Reserve, especially considering the last rate hike occurred on the 29th of June 2006. It didn't come; one wonders why after eight years of worldwide accommodative monetary policy, a small rate hike is still not in the cards.

Chart 1: Still the lowest interest rates in 5000 years!



Sources: Bank of England, Global Financial Data, Homer and Sylla "A History of Interest Rates"

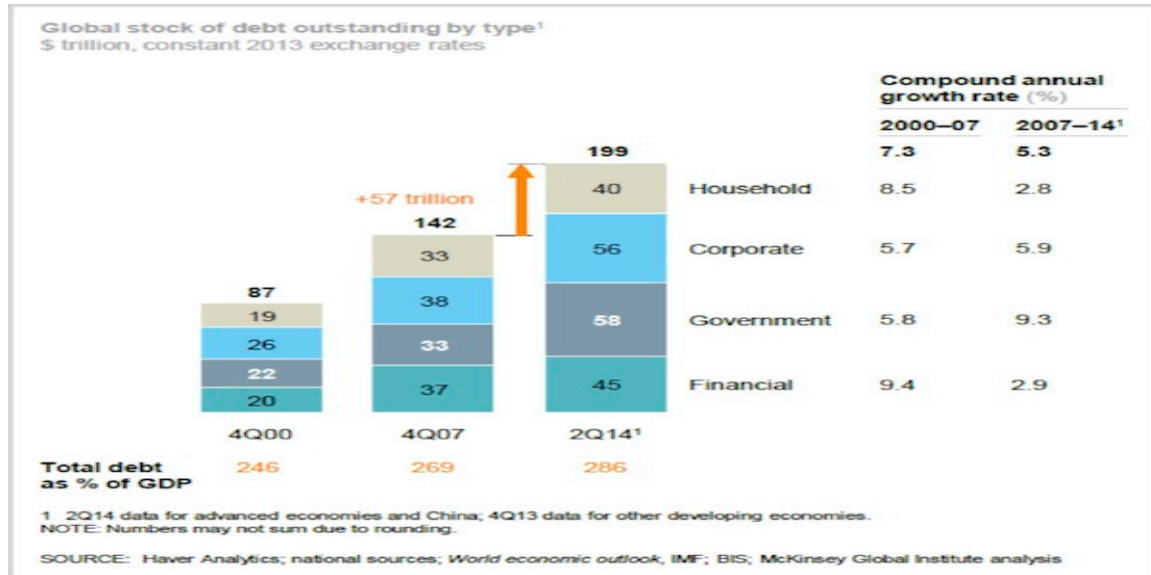
Note: the intervals on the x-axis change through time up to 1700. From 1700 onwards they are annual intervals. Full methodology available upon request

source: Homer & Sylla "A History of Interest Rates"

Although you always have to be careful to use phrases such as never before, it is more than obvious to us that the world's central banks have "never before" carried out financial experiments on such a gigantic and global scale! Through their combined actions they have:

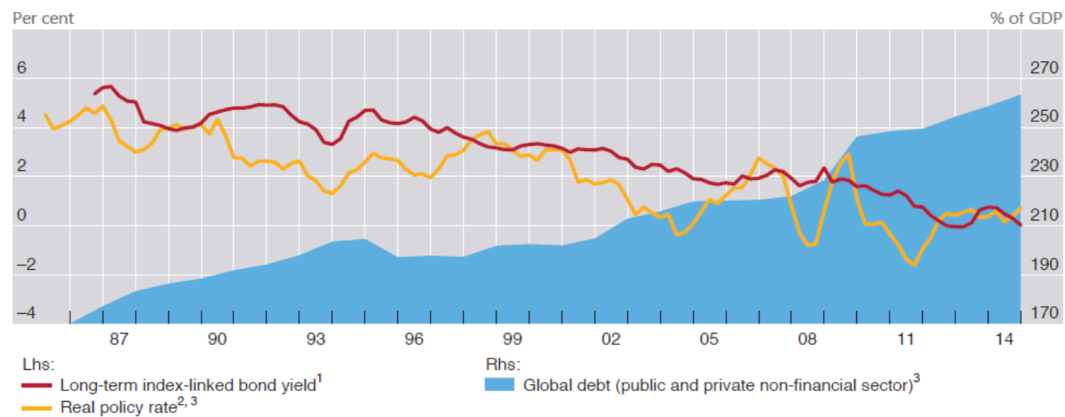
- Pushed central bank interest rates to both historically nominal and real lows.
- Driven yields on government bonds to lows not seen in several hundred years (France, Belgium, The Netherlands); government bond yields are even negative for some countries (Germany, Switzerland).
- Driven commercial bank deposits close to zero or even negative for large customers, across the Eurozone area.

All of this has pushed up asset prices to unprecedented levels! But why are central banks so intent on pushing up asset prices in general and equity prices in particular both directly (e.g. Japan and Switzerland are buying listed equities with money created out of thin air) and indirectly (through lower interest rates)? Central banks want consumers to save less and spend more, banks to provide more and cheaper loans to companies, to reduce companies' and governments' cost of servicing their debt, to support the funding status of pension funds and to force investors into riskier assets to create an overall wealth effect (which should lead to greater economic confidence and more consumption and investment).



source: Mauldin Economics

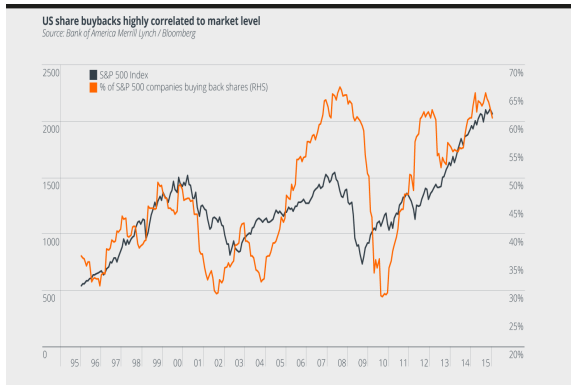
Chart 1: Debt soars as interest rates sink



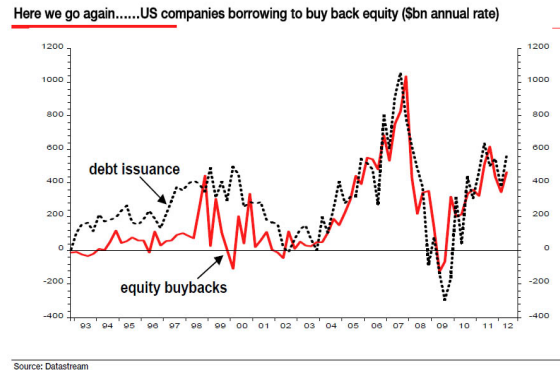
¹ From 1998, simple average of France, the United Kingdom and the United States; otherwise only the United Kingdom. ² Nominal policy rate less consumer price inflation. ³ Aggregate based on weighted averages for G7 economies plus China based on rolling GDP and PPP exchange rates.

source: www.bis.org

And the actual results? A look at the real economy does present a very muddled and not so positive picture. Real economic growth has been weak to non-existent and is even turning negative in most parts of the world as we speak. Household consumption is weak; extremely low interest rates are forcing families to save more. Financial institutions have excess cash, but their loan growth has been very weak. And companies are not investing much in their own productive capacity / growth, but are instead leveraging up their balance sheets to either engage in another mergers and acquisitions boom, or to buy back record numbers of their own shares; both avenues are artificially boosting their earnings per share in the process.

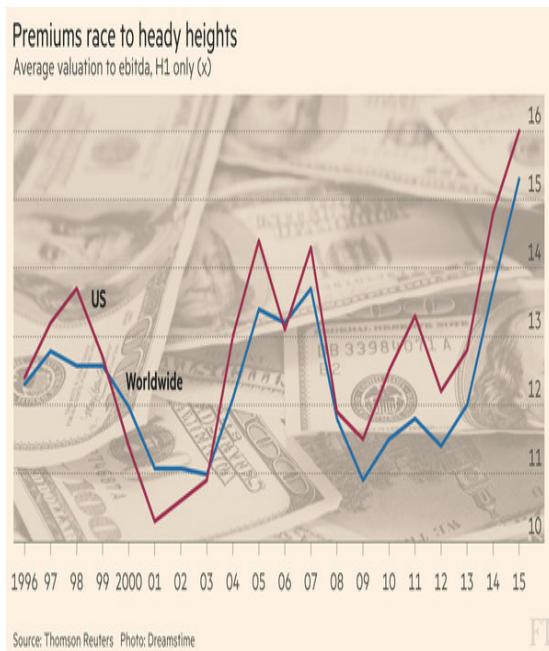


source: www.woodfordfunds.com

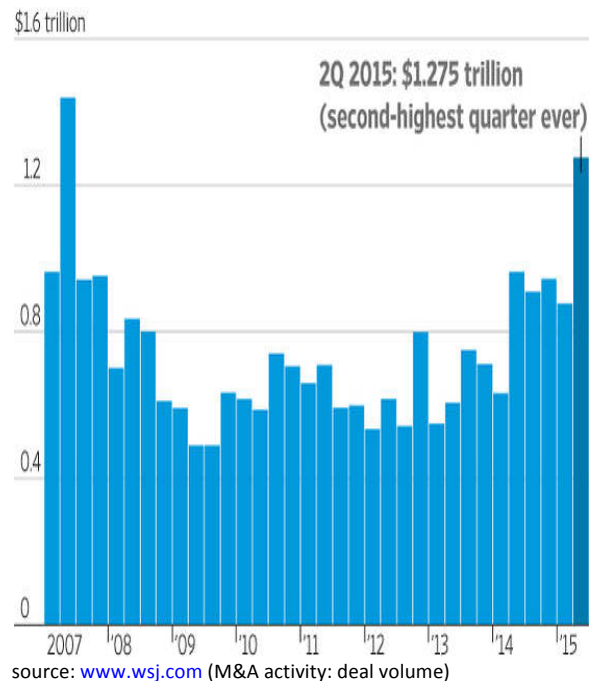


source: www.socgen.com

Today, after another seven years of debt build-up across a lot of the Western and Developing world, we are now left with more debt than ever before and low real economic growth, limited conventional tools to help the economy to de-lever, and unconventional monetary policies such as Zero Interest Rate Policy (ZIRP) and Quantitative Easing (QE). The only thing that central banks have thus accomplished is to drive up asset levels (bonds and equities alike) to unprecedented levels. We do not know how all of this will play out, but we are convinced that years from now books will be written about this unprecedented monetary experiment!



source: www.ft.com (M&A activity: valuation multiples)

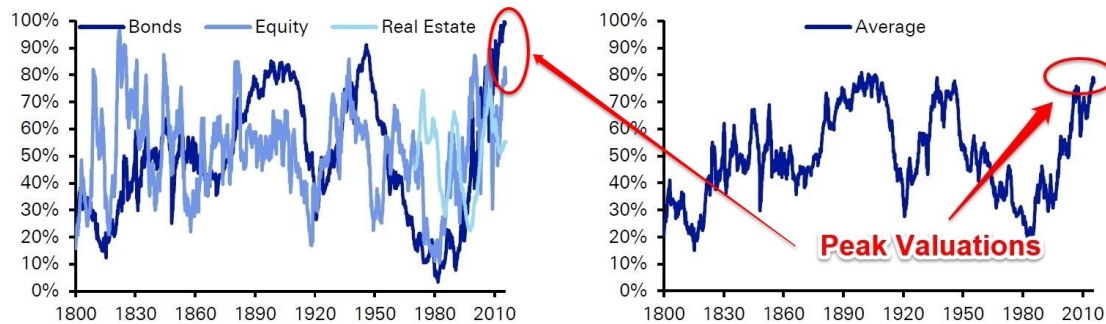


source: www.wsj.com (M&A activity: deal volume)

Thanks to the new normal world of extremely loose monetary policy by central banks, Deutsche Bank recently confirmed that we live in a period not of selectively expensive global asset prices, but of record "expensiveness" across developed market bonds, equities, and real estate.

In aggregate, across the three main asset classes, average valuations are close to the highest they have ever been relative to their long-term trend. Deutsche Bank's claim that assets are at peak "valuation" is based on their analysis of 200 years worth of data across 15 of the world's most important developed economies: Australia, Canada, Denmark, Finland, France, Germany, Italy, Japan, Korea, Netherlands, Spain, Sweden, UK and the US.

Figure 1: Average Percentile Valuations for 15 DM Countries' Bond (Nominal Yields), Equity & Housing vs. History (left) and Aggregated Average (right)



Source: Deutsche Bank, GFD

source: www.zerohedge.com / www.businessinsider.com

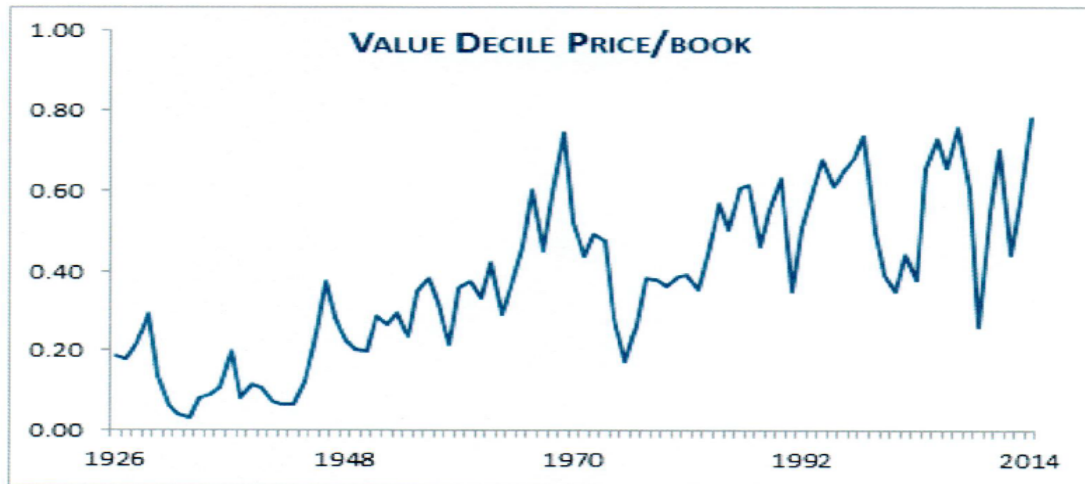
What could start the declines away from the peak prices we currently see? Their answer:

"The most likely driver would be something that changes the current policy orthodoxy where central banks are continually keeping rates at close to zero and accumulating assets at a pace never previously seen through history. Anything that changes this will likely be a negative for assets. As discussed, if the Fed do start a sustained hiking cycle then the evidence is that the economy and assets will eventually adjust. Perhaps this time this will be more extreme given the weaker economy and higher asset prices leading into the tightening."

Cash: the only asset not in a bubble?

For us everything comes down to whether or not the business we invest in is a reasonably (read: cheaply) valued business and if it can operate successfully through one or more economic cycles. So, if we see something that meets our risk-reward, we will invest in it. We do not care about the macro economic environment on itself, independent of the valuation of companies. We do care about the investment opportunity set! And experience has taught us that economic uncertainty, or better, perceived economic uncertainty leads to a bigger opportunity set (cheaply valued businesses). And when we do not find enough investment opportunities we have cash in our portfolio as a result. Cash – not investing – should be the default option.

Today monetary policy has left investors with only two distinct choices: accept zero (or negative) returns on cash or reach (read: over-reach) for yield in liquidity-driven and – based on their valuation levels – increasingly speculative assets. Every market cycle has its own narrative, and this one really is more than ever all about the world's central banks. The story is that the central banks have your back and that has influenced without precedent everybody's (investment) psyche and thus everybody's investment portfolio. Because of their actions every asset class is in bubble today: equities, government and corporate bonds. Even value stocks (defined as the cheapest 10% of the market based on price to book) are in bubble: the absolute valuation of value stocks is the highest ever (source: value investors' club (Lincott)! "There Is (Really) No Alternative" (TINA) is again (!) the new mantra. There is only one thing that nobody wants, regardless of how over-priced the other options are, and that is cash.



source: value investors' club (Lincott)

What created the great financial crisis of 2008? The central banks policy of artificially holding down interest rates. That is what drove the animal spirits of investors to seek higher and higher yields in all kinds of mortgage debt (which had until then never experienced a widespread default crisis, nor was this mortgage debt so widely – almost worldwide – held).

Unfortunately, we don't learn that we don't learn. So we are doing – we have already done – all of this again, only on a bigger scale now and with different numerous financial "instruments". Interest rates are now at all-time lows, and corresponding debt levels at historic highs. Housing-related debt has been replaced with all kinds of leveraged carry trades and structured products, and by debt-financed equity repurchases and leveraged buy-outs, taking equity valuations again to extreme levels.

Investors (we call them speculators when stating this case) make the theoretical case that if interest rates stay as low as they are now for the next 20 years, the equity market is actually cheap based on the method of discounted cash flow. However, when we look at Japan as a real-life case study, which was the first developed country to grapple with deflation and zero interest rates, we see a very different outcome: the Japanese stock market is still at just half the level of the end of 1989, despite many false dawn rallies in the interim; and Japanese bond yields have been stuck at very low levels since the late 1990s.

We, by the way, very seldomly have a (clear) macro-economic view, nor will that top-down view directly influence our bottom-up decisions. So we are not going to make an explicit call on interest rates and their direction here, nor on the timing or the magnitude. We don't ever invest on a relative basis not versus a stock market index and not versus prevailing interest rates. The investment and its potential return, always, after first considering the downside-risk, should stand on its own merits (cash flow and asset-wise).

Today, we are reminded once again, for the second time in less than 10 years and the third time in less than 20 years, that there is something really bizarre about the psychology of the investment public at large. People do not care how much they or their investment managers for them, lose in bear markets. Although not losing money is paramount to successfully compounding money! They are only interested in how much they make during bull markets... even if they give all of it back... every single time (!) in the following bear market! So, nobody ever goes to cash. Being able (and willing) to go to cash is a crucial advantage, but only over a full market cycle, an investment time horizon, which seems too long to be relevant for any conventional investor, or, even more importantly, for a fund manager's career.

After 2008, we felt the economic conditions and more importantly, valuation levels, were such that you were set up for great long-term investment success. You just (!) needed the cash – raised in advance – and

also the mental fortitude to load up the truck. But that was easier said than done, because there is certainly no such thing as easy money when investing: investing when there's blood in the streets is always one of the most daunting and lonely challenges of the (contrarian) value investor. So, you really have to be prepared: ready with both mental capital and real capital (read: cash)!

Current economic conditions and valuation levels – in stark contrast with 2008 – make us think that investors are being set up for a serious disappointment, especially for the unprepared.

We leave the concluding remarks to Howard Marks (*It's Not Easy*, September 2015):

Following, the trends that are popular at a point in time certainly isn't a formula for investment success, since popularity is likely to lead investors on a path that is comfortable but pointed in the wrong direction. Here's more from "Everyone Knows:"

The fact is, there is no dependable sign pointing to the next big moneymaker: a good idea at a too-low price. Most people simply don't know how to find it...

Large amount of money (and by that I mean unusual returns, or unusual risk-adjusted returns) aren't made by buying what everybody likes. They're made by buying what everybody underestimates.

In short, there are two primary elements in superior investing:

- *Seeing some quality that others don't see or appreciate (and that isn't reflected in the price), and*
- *Having it turn out to be true (or at least accepted by the market).*

It should be clear from the first element that the process has to begin with investors who are unusually perceptive, unconventional, iconoclastic or early. That's why successful investors are said to spend a lot of their time being lonely.

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

In the past quarter, we continued to invest in Shun Ho Property Investments. Shun Ho is a Hong Kong based and listed, holding company active in property investment & development (hotels and commercial buildings). The holding company owns two fully let office properties (633 King's Road and Shun Ho Tower in Hong Kong) and 7 operating hotels through its 71% interest in the listed Magnificent Estates.

All hotels (Ramada Hotel Kowloon, Ramada Hong Kong Hotel, Best Western Grand Hotel, Best Western Hotel Harbour View, Best Western Hotel Causeway Bay, Grand City Hotel and Magnificent International Hotel Shanghai) are 3-4-star rated hotels with an average room rate of 600 HKD to 1.000 HKD per night (tourist and business budget-priced). The group has 2.000+ rooms and is as such one of the largest hotel groups in Hong Kong.

An 80% discount to current real estate market prices, a 50% discount to more conservative real estate prices, and, most importantly, a 20% plus 2014 free cash-flow yield range should provide a sufficient margin of safety (a.o. against the high property prices in Hong Kong and a cyclical down-turn in tourism).

The Next update... and our eyes always on...

There is just way too much focus on short-term performance. The media write about it constantly, and investor flows in aggregate (not everyone!) seem to follow it too much. We certainly enjoy these stories and flows a lot more when they are in our direction (not a bad picture either, considering the source material), and certainly believe the recent inflows highlighted are a good long-term allocation (that's mighty big of us, no!?). But we remind everyone that these decisions should be occasional, based on long-term assessments (and even if based on a tactical view, last month's performance isn't a great place to start!), and revised rarely. Good strategies will have bad years or even bad multi-year periods, and conversely bad ones will often shine in a world with so much short-term randomness. We (and all other managers, as we're all in the same boat) are not as good as many implicitly believe when we did great last month (or year or even sometimes longer), and certainly not as dumb as some will think after bad times.

Just a friendly reminder to keep our eyes on the long-term prize.

- Cliff Asness, co-founder of AQR Capital Management, 1st of September 2015

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.

As always we appreciate your continued trust!

The Tartaros Team

A must read:

"...A second form of perverse behavior is the incentive to herd with other investment managers on investment choices because herding provides insurance the manager will not underperform his peers. Herd behavior can move asset prices away from fundamentals.

Both behaviors can reinforce each other during an asset price boom, when investment managers are willing to bear the low-probability tail risk that asset prices will revert to fundamentals abruptly, and the knowledge that many of their peers are herding on this risk gives them comfort that they will not underperform significantly if boom turns to bust. An environment of low interest rates following a period of high rates is particularly problematic, for not only does the incentive of some participants to "search for yield" go up, but also asset prices are given the initial impetus, which can lead to an upward spiral, creating the conditions for a sharp and messy realignment.

*...Would a few enterprising managers not want to buck the trend and, thus, return prices to fundamentals? Unfortunately, **few would want to go up against the enormous mass of managers pursuing the trend. The reason is that their horizon is limited.** If the mispricing in stocks does not correct itself in a relatively short while, the investment manager will see an erosion of his customers as he underperforms. **It takes a very brave investment manager with infinitely patient investors to fight the trend, even if the trend is a deviation from fundamental value.** Increasingly, finance academics are coming to the conclusion that prolonged deviations from fundamental value are possible because relatively few resources will be deployed to fight the herd (see, for example, Shleifer and Vishny, 1997, or Lamont and Thaler, 2001)."*

- Raghuram G. Rajan was the Economic Counselor and Director of Research at the International Monetary Fund from October 2003 until December 2006. He is the author of *Fault Lines: How Hidden Fractures Still Threaten the World Economy*.

source: <https://www.kansascityfed.org/publicat/sympos/2005/pdf/rajan2005.pdf> (via Farnam Street)

2 Fund Overview

2.1 General Overview (end of Q3 2015)

	Asset Class
Equities	51,19%
Corporate Bonds	1,84%
Cash	46,97%
	100,00%

	Currencies
USD	46,21%
EUR	30,73%
CAD	10,58%
YEN	2,78%
HKD	7,07%
DKK	2,63%
	100,00%

	Industry (as % of Fund)
Mining	5,79%
Services	4,06%
Pharma	0,23%
Energy	2,10%
Telco & Info	1,94%
Basic Industries	9,19%
Mining Services	0,58%
Retail-Wholesale	10,80%
Real Estate	16,64%

2.2 Fund Positions

We have no short positions and no leverage. We are invested long in 26 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	19%
0,5 < 1 Billion	7%
< 0,5 Billion	63%

<i>Position</i>	<i>% of portfolio</i>
Cash	46,97%
Investment 1	7,87%
Investment 2	5,68%
Investment 3	4,72%
Investment 4	4,72%
Investment 5	3,89%

We sold the following investments:

<i>Disinvestment</i>	<i>Entry Price</i>	<i>% of Portfolio</i>	<i>Return</i>
Rella	33,06 dkk	2,57%	+134%

It should be noted that all numbers are approximations.

2.3 NAV series

Série A 1 LEAD	198,80
Série B 3 31/12/10	96,69
Série C 5 31/03/11	94,39
Série D 7 30/06/11	100,64
Série E 9 30/09/11	105,78
Série F 13 31/12/11	99,66
Série G 15 31/03/12	98,22
Série H 17 30/06/12	103,41
Série I 19 30/09/12	94,96
Série J 21 31/12/12	99,12
Série K 23 31/03/13	100,25
Série L 25 30/06/13	109,04
Série M 27 30/09/13	104,11
Série N 29 31/12/13	105,31
Série O 31 31/03/14	102,66
Série P 33 31/03/15	91,78
Série Q 35 30/06/15	94,46

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