1 General Overview

Friday, 7 April 2017

Gutta cavat lapidem non vi sed saepe cadendo.
(A water drop hollows a stone not by force, but by falling often.)
- Ovidius, Epistulae ex Ponto I

Dear Partners:

The Fund finished the first quarter of 2017 2,44% in the plus, versus +5,76% for the Eurostoxx 50 and versus +4,47% for the MSCI World Index. The Net Asset Value of the Fund is 221,39 (cf. part 2.3 for all the NAVs of all series).

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										2,44
Msci world	-0,31	4,74	0,06										4,47
Eurostoxx 50	-1,83	2,75	4,84										5,76

*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*

The last man standing

"Right now patience is in short supply. You used to get a quarterly statement and throw it in the garbage; now you can check your stock price thirty times a minute. There's a lot more data, a lot more ability to crunch numbers and compare people. That works against investors, and patience continues to be the hardest challenge. It always was, but now it is even worse. The last man standing is going to be time arbitrage."
- Joel Greenblatt

We believe that all benefits in life (e.g. health, wealth) come from compound interest.

When investing compounding comes into its own only if you stay focused on the long-term, leaving all investment gains in the pot to seed the next wave of profits. If we continually siphon off money from investment profits, we will never get the full benefit of the compound effect.

This correlates for instance with how crucial consistency and long-term focus is in strength training or dieting. If we quit and re-start frequently and thus let our progress fade away between short bouts of activity, it is the same as if we were constantly drawing off the profits from our invested capital.

So avoiding short-term thinking and dealing is of paramount importance for the most important things in life. But this is very difficult in a (financial) world that overrates the one-year prospect (i.e. the short term) and underrates the ten-year potential (i.e. the long term).

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Return	10%	per annum
	Simple interest earned	Compound interest earned
Initial deposit	100.000 €	100.000 €
Year 1	10.000 €	110.000 €
Year 2	10.000 €	121.000 €
Year 3	10.000 €	133.100 €
Year 4	10.000 €	146.410 €
Year 5	10.000 €	161.051 €
Year 6	10.000 €	177.156 €
Year 7	10.000 €	194.872 €
Year 8	10.000 €	214.359 €
Year 9	10.000 €	235.795 €
Year 10	10.000 €	259.374 €
Total interest earned	100.000 €	159.374 €

For compounding to work you have to be patient and maintain a long-term time horizon, which we believe is now a bigger advantage than ever. As per the NYSE Factbook, the average holding period for equities in 1960 was 100 months (8 years). By 1970 it had dropped to 63 months (5 years). By 1980 it had dropped to 33 months, by 1990 to 26 months, by 2000 to just 14 months, and in 2010 to just 6 months. Today it is about 4 months! These statistics are eye-opening crazy.

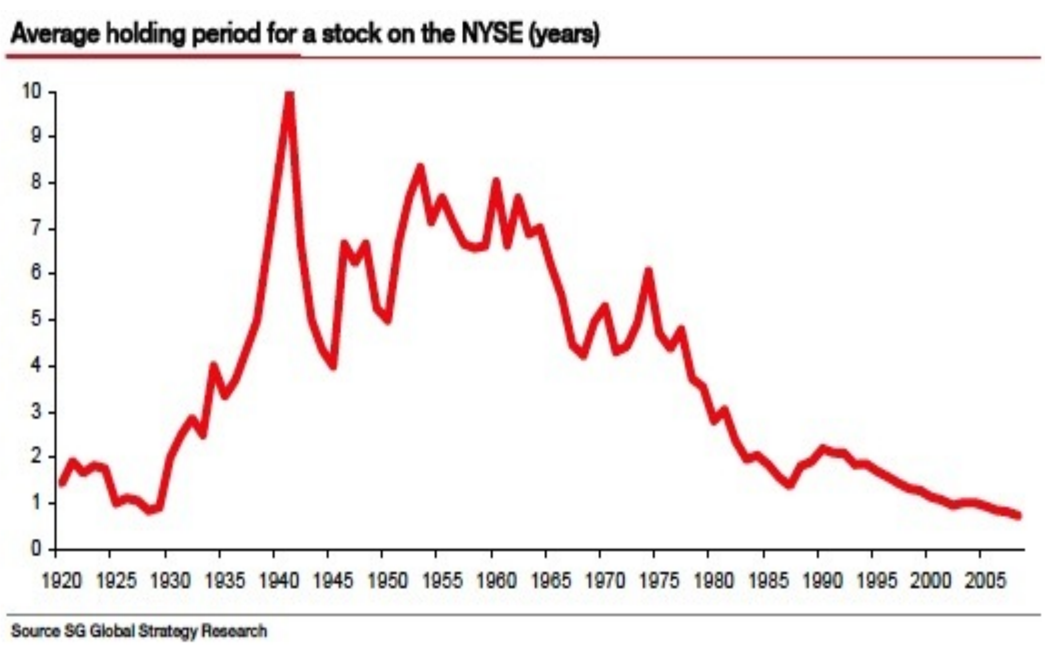

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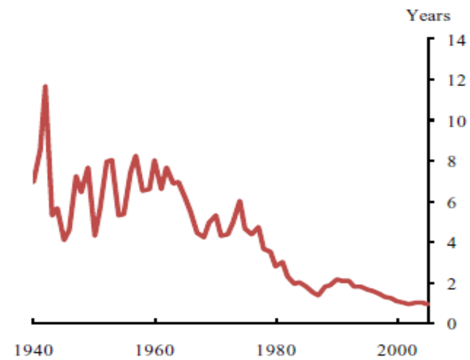
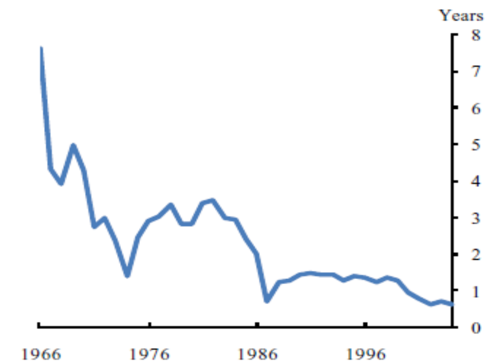
Chart 9: NYSE average holding period, 1940-2005



Source: New York Stock Exchange

Chart 10: FTSE average holding period, 1940-2005



Source: London Stock Exchange

This incessant focus on the short-term noise that is pervasive in the financial markets creates lots of volatility by all this irrational buying and selling. Fortunately, for those that understand the benefits of time arbitrage, the existence of this short-term speculation creates opportunities for long-term investors. Essentially, time arbitrage is exploiting the benefits of moving against the herd and buying assets that are temporarily – can be years! – out of favor because of short-term fears, despite the long-term value of the business. The opportunities caused by speculation being disguised as investment are hardly new. John Maynard Keynes in his magnum opus The General Theory of Employment, Interest and Money identified the over-activity of investors already in the 1930s:

Even apart from the instability due to speculation, there is the instability due to the characteristic of human nature that a large proportion of our positive activities depend on spontaneous optimism rather than on a mathematical expectation, whether moral or hedonistic or economic. Most, probably, of our decisions to do something positive, the full consequences of which will be drawn out over many days to come, can only be taken as a result of animal spirits [emphasis added] – of a spontaneous urge to action rather than inaction, and not as the outcome of a weighted average of quantitative benefits multiplied by quantitative probabilities."

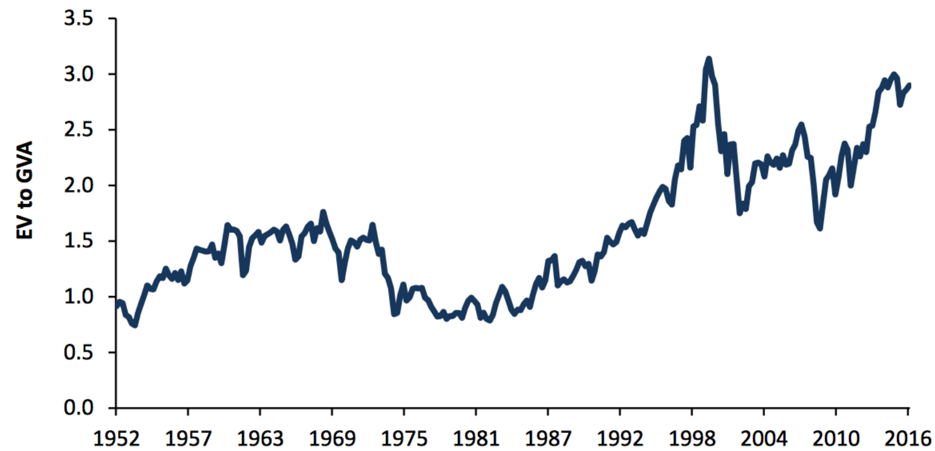
The biggest advantage today is to literally and figuratively distance ourselves from the short-term noise by maintaining a long-term (i.e. multi-year) view and to patiently wait for great investment opportunities to present themselves.

The current market valuation

From James Montier in his latest GMO research Six impossible things for breakfast (March 2017):

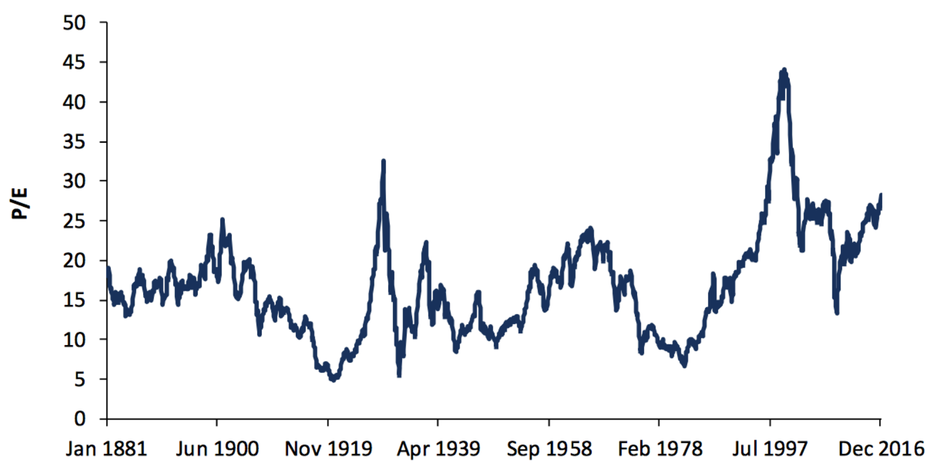
"We can combine equities, debt, and cash into a single valuation metric, a macro equivalent to EV/ EBITDA, by using the series mentioned earlier – gross value added. Exhibit 16 shows EV (defined as equity + debt - cash)/gross value added). It is clear that the US security market in aggregate (equity and debt combined) is fast approaching the obscene levels of expense that we witnessed in the madness of the TMT bubble.

Exhibit 16: Enterprise Value to GVA Approaching TMT Peaks



It isn't a mania in that sense. We aren't seeing the insane behaviour that we saw during episodes like the Japanese land and equity bubble of the late 1980s, or the TMT bubble of the late 90s, at least not at the micro level. However, investors shouldn't forget that the S&P 500 currently stands at a Shiller P/E of just over 28x – the third highest in history (see Exhibit 17)."

Exhibit 17: Shiller P/E for the S&P 500



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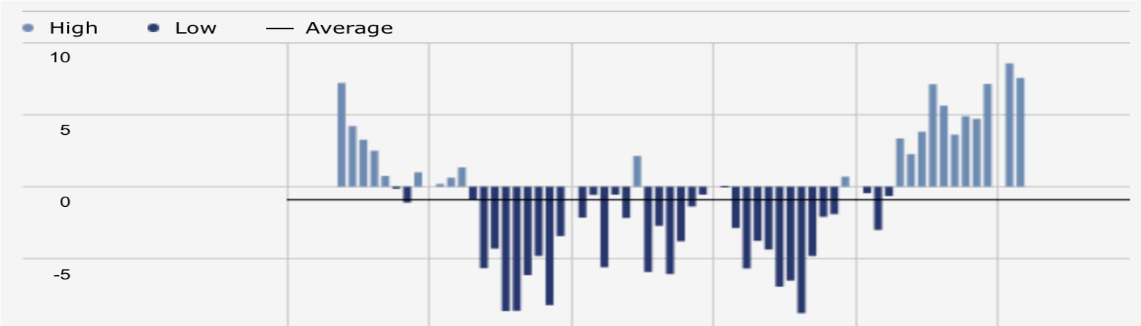
Changes in the Fund's Portfolio (cf. 2.2. Fund Positions for more details)

We sold Pimco Dynamic Income Fund (PDI) – a 1,49% fund position – with a 96% return. PDI was a simple way to get exposure to Pimco's best credit ideas, especially non-agency mortgage debt. We invested when PDI, a closed end fixed income fund was trading at a discount to NAV, while offering an almost double-digit yield. When we exited the position PDI was trading at an almost 10% premium to NAV.



	2012	2013	2014	2015	2016	YTD
Average Discount	+2.20	-4.03	-2.44	-3.91	+3.19	+8.03
High Discount	+7.18	+1.34	+2.13	+0.70	+7.12	+8.54
Low Discount	-1.10	-8.61	-6.04	-8.76	-2.99	+7.53

As always, the less prudence with which others conduct their affairs, the greater the prudence with which we should conduct our own affairs. Although markets are priced for perfection in the United States and near perfection in other developed countries (cf. supra The current market valuation), we are always on the lookout for bargains.

In the first quarter of 2017 we made a number of small special situation investments. We call these investments special situations because we believe the margin of safety is very high (as in chance in permanent loss of capital is extremely small to non-existent) and there are (hard/soft) catalysts to expedite the potential (albeit limited) value unlocking.

(1) We made a small investment in the preferred shares of Dream Unlimited (DRM). DRM is a Canadian land and real estate developer and a real estate and infrastructure asset manager. DRM has a common shares market cap of approximately 780 million cad vs a market cap of approximately 40 million cad for the preferred shares.
The preferred shares are retractable by the corporation at 7,16 cad per share, and redeemable by the shareholder at 7,16 per share; in both cases with accrued dividends (7% coupon on a 7,16 par value).

The only risk is if the underlying corporation Dream Unlimited elects to pay the redemption with common shares; i.c. 95% of the 20 day volume weighted average price. At 7,16 cad per share we believe there is no long term downside (when paid in common shares) and we get a 7% yield to wait until the company redeems the shares (in cash or shares).

(2) We invested in two series of preferred shares of American Homes 4 Rent (AMH). AMH is the biggest REIT in the single-family home rental industry. The company acquires, renovates and manages single-family homes and rents them out. AMH owns more than 48.000 single-family properties across 22 states in the United States. We took a position in the 5,00% series A cumulative participating preferred shares and in the 5,50% series C cumulative participating preferred shares; both of them have a home price appreciation (HPA) linked component. The HPA component (50%) is tied to an index to track how prices of repeat sales of same single-family homes changed in the top 21 metropolitan statistical areas of AMH.

The A preferred shares are callable on or after 9/30/17, and the C preferred shares on or after 31/03/2018. The call price will be equal to the initial strike price of 25,00 usd plus the fixed HPA Amount.

It should be noted that if the HPA amount turns out to be negative at any point in time the call price of AMH will still be 25,00 usd. It should also be noted that there is a limit as to how high the call price of the preferred shares can rise. Moreover in 2020 there is a massive coupon step-up. The preferred shares will then start paying a 10% dividend and those 10% dividends will no longer be calculated based on the preferred stock's par value of 25 usd. Instead, they will be applied towards the new fixed call price. We invested at an expected yield to call approximately 8%. The biggest risk is that Instead of paying in cash for the redemption of the preferred shares, AMH could pay the holders in common stock. AMH has a market cap of 5 billion usd, assets (single family homes) of 8 billion usd, and 2,8 billion usd of debt.

(3) We have a position in New York REIT (NYRT). NYRT has a market cap of 1,6 billion usd and owns 19 properties, almost all of them concentrated in Manhattan; only one property is located in Brooklyn. The properties are mostly a mixture of retail and office space with also one hotel in the portfolio. The properties consist of 3,3 million square feet of leasable space with average remaining lease terms of 9 years. Occupancy is at approximately 93,5%. 70% of net operating income (NOI) comes from 5 buildings representing 2, 55 million square feet of their total 3,3 million leasable space.

NYRT is – as decided at the beginning of January – liquidating and investors can expect liquidation to start in the fall of this year. For over the past two years it had been a back and forth on what to do with the company. Strategic alternative reviews were announced both in 2014 and 2015. In May 2016, NYRT finally announced a value-destructive merger with JBG, a D.C.-based REIT. The combination would have created an 8 billion usd REIT with assets primarily in D.C. NYRT's conflicted board and advisor approved this value destructive merger. Although the deal made no sense to NYRT shareholders, the external advisor stood to benefit financially from this deal. The liquidation was forced by activist investors who successfully blocked a merger with JBG. So NYRT has contracted a new external advisor and is now in the process of selling all of its assets; the proceeds will be distributed to shareholders as special dividends.

The lead activist investors Ashner and Witkoff have presented what they believe the liquidation value of the company is: they have a valuation estimate range of 11,40 usd a share to 12,40 usd per share. It should be noted that the NYRT's new external (liquidation) advisor, Winthrop, will not get paid a performance fee of 10% until liquidation distributions top 11 usd per share.

The biggest factor in the valuation is of course the cap rate – NYC has seen average cap rates of around 4% – and the biggest risk is thus a sudden deterioration in the NYC commercial real estate market.

(4) Treasure ASA (TRE) is a simple Norwegian one-asset holding company. TRE is a spinoff from Wilh Wilhelmsen ASA and got listed on the Oslo stock exchange in the summer of 2016. The holding company consists of a 12,04% stake in Hyundai Glovis and some cash. Hyundai Glovis is the logistics arm of Hyundai Motors; so the holding company's fortune is closely tied to that of the future volumes of the car maker.

But Hyundai Glovis itself is a stable business with captive major clients in Hyundai and Kia. The stock is trading at 6 year lows (down 55% from its peak price) and is currently valued at 2x P/B and 10x earnings for a consistently 20% ROE asset.

The possible kicker in the situation is the succession at the Hyundai group. The heir apparent, Eui-Sun Chung, is the largest shareholder of Hyundai Glovis, and it is his largest asset as well. Glovis is therefore expected to play an important role in his ascension to the throne of the Hyundai Motor Group and a popular scenario sees Glovis as his vehicle to eventually controlling the entire Hyundai group.

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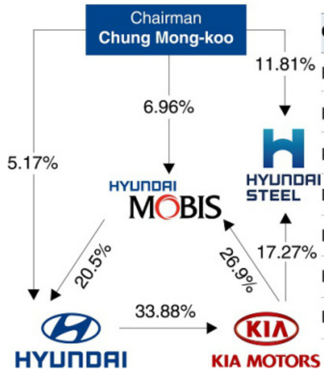
Governance of Hyundai Motor Group



Chung Eui-sun's stake in key Hyundai units

Company	Stake
Hyundai Mobis	0%
Hyundai Motor	2.3%
Kia Motors	1.7%
Hyundai Steel	0%
Hyundai Glovis	23.3%
Hyundai Autoever:	19.5%
Hyundai Engineering	16.4%

Source: Hyundai Motor, thinkpool.com

source: http://www.koreaherald.com/view.php?ud=20160704000476

We bought Treasure at a 45% discount to NAV. In February the company decided to pay a dividend of 0,30 NOK per share in the second quarter of 2017.

It should be noted that we also started to invest in (5) an unlevered casino operator and (6) a highly profitable pharmaceutical manufacturer. More on both (special situations) companies in the next investment letter.

Finally, as mentioned in the previous investment letter, we also acquired a 4% position in the Japanese electroplating chemicals company C. Uyemura & Co. We previously read up on the electroplating chemicals industry when researching Platform Specialty Products (PAH). We came across PAH by following Bill Ackman and his Pershing Square investments. Similar to Valeant, PAH is built upon a roll-up strategy fueled by debt. We thought the industry characteristics and dynamics were great, but considered the company too leveraged and too expensive.

Electroplating chemicals is a mission-critical component in producing PCBs (printed circuit boards are used in all but the simplest electronic products), semiconductors, car parts and other surface treatments, yet only yields a small portion of the overall manufacturing cost base. Examples are corrosion protection for fasteners or the electronic components of wind and solar energy; chrome and precious metal processes for sanitary applications provide a huge variety of design options (high quality shower heads and fittings); from door handles to fasteners and valve systems, a myriad of automotive components are treated with decorative and functional plating processes and surface finishing solutions; etc.

C. Uyemura is a pure play in electroplating chemicals and is one of the four Japanese players. Globally, C. Uyemura would rank in the top 5 (with a high single digit market share), after the big global players. The C. Uyemura family owns 25% stake in the company. The company was incorporated in 1933 and IPOed in 1997. It has been consistently profitable for the past two decades (since its IPO).

At out current average investment price approximately 60% of its market cap is covered by cash and 80% is covered by cash and its real estate and equity holdings; this equates to approximately 4,5x P/E (after subtracting the excess cash).

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 how the secret to winning is learning how to put up with losing:
http://www.collaborativefund.com/blog/surviving-the-continuous-chain-of-disappointments/

Administration and the next update

We will be switching our custodian and fund administrator from Delen Luxemburg to a consortium of KBL KTL / EFA. KBL European Private Bankers (KBL) will become our central point of contact. Delen has been nothing but professional and helpful from the first day we have worked with them. Leaving is not easy, but changes in compliance requirements (fatca & crs) have made this step necessary. We are still working through the timing and logistics with the drafting of a detailed migration plan, but the KBL consortium is a top tier provider – specialized in asset servicing – and all of us are working closely together to make the transfer go as smoothly as possible.

It should be noted that compliance requirements will be more strict from now on (e.g. certified copy of ID and more detailed subscription form), but also that the switch will provide significant cost savings for all of us.

In the meantime, please email or call us with any questions you have with respect to this administrative change!

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

The Tartaros Team

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2 Fund Overview

2.1 General Overview (end of Q1 2017)

	Asset Class
Equities	62,08%
Preferred Equities	1,70%
Corporate Bonds	1,13%
Cash	35,09%
	100,00%

	Currencies
USD	54,33%
EUR	17,72%
CAD	10,39%
YEN	9,36%
HKD	7,24%
NOK	0,96%
	100,00%

	Industry (as % of Fund)
Mining	7,49%
Services	9,50%
Energy	1,92%
Telco & Info	2,98%
Basic Industries	12,61%
Mining Services	0,50%
Retail-Wholesale	3,72%
Real Estate	21,67%
Pharma	3,62%

2.2 Fund Positions

We have no short positions and no leverage. We are invested long in 33 positions.

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

Market Capitalizations in USD	*% of equities invested*
> 5 Billion	9%
1< 5 Billion	21%
0,5 < 1 Billion	9%
< 0,5 Billion	61%

Position	*% of portfolio*
Cash	35,09%
Investment 1	6,84%
Investment 2	4,89%
Investment 3	4,48%
Investment 4	3,94%
Investment 5	3,60%

It should be noted that all numbers are approximations.

2.3 NAV series

TARTAROS FIS SCA GLOBAL VALUE CL A CAP	221,39
TARTAROS FIS SCA GLOB VALUE S CAP 31.12.16	102,44