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1 General Overview

Friday, 7 July 2017

You have to throw out all of the matrices and formulas and texts that existed before. You have to throw them away because they can't make money for you anymore, and that is all that matters. We don't use price-to-earnings multiples anymore. If we talk about price-to-book, we have already gone astray. If we use any of what Graham and Dodd teach us, we wouldn't have a dime under management.

- <http://www.creditbubblestocks.com/2017/06/the-winners-of-new-world.html>

Dear Partners:

The Fund finished the first quarter of 2017 -3,98% in the red, versus -1,14% for the Eurostoxx 50 and versus -3,60% for the MSCI World Index. The Net Asset Value of the Fund is 212,58 (cf. part 2.3 for all the NAVs of all series). It should be noted that we reclaimed almost 1% after the first couple of days of the new quarter.

In the second quarter of this year the Fund's portfolio faced a large headwind from currency movements, mainly caused by the euro gaining in value (6-7%) versus all other currencies in the portfolio. The portfolio in constant currency advanced almost 1,5%, but the extremely strong rise of the euro set us back considerably. Obviously, last year the currency movements were in our advantage.

Large multinational companies have hedging departments who try to divine currency (and commodity) movements. Their track records are abysmal and it only ends up costing them more money. In the end currency movements should cancel themselves out without the additional hedging costs incurred. But if we have to make a long term currency bet, we would prefer the usd over the euro. It should be noted that our usd exposure is for the most part a result of the fact that now more than ever we prefer special situations (cf. infra) to invest in. These special situation investments – with hopefully even more downside protection – are mostly found in American markets.

The following table gives an overview of 3 “special situations” investments that we made in the first quarter of this year. The negative currency effect is obvious.

		RETURN (USD)	RETURN (EUR)
American Homes Preferred - A	USD	3,61%	-3,76%
American Homes Preferred - C	USD	3,63%	-3,38%
High Income Opportunity Fund	USD	2,54%	-4,39%

The difficulty absolute return (value) investors have is that when market valuations are stretched beyond any reasonable explanation and the economic cycle is closer to the end than the beginning (both circumstances always go hand in hand), value investors often over-reach and end up with the few cheap stocks that are left. Most of the time these stocks end up being value traps and value investors subsequently get their heads handed on a platter (eg. lots of value investors got “killed” by investing in what seemed cheap financial stocks in 2006-2007) when the downturn comes.

When you have financial markets that are in an unprecedented way distorted by zero interest rate policy for years and years now, everything is just like a (financial) rocket that is going up relentlessly. Only if you were fully invested and ignored all risks you had a shot at out-performing.

It is obvious that we do not invest for relative returns, but psychologically it always feels better when you can keep up; we are human after all. But we have to learn to live with the fact the value investor is usually hated before he is loved (cf. infra What (part 3): the death of value investing).

At a wedding reception, we overheard one person telling how he expects a market crash any minute now. In another conversation we accidentally stumbled upon, another person was talking about how this was a paradigm shift (interest rates would be forever low and valuations forever high).

We do not believe in financial paradigm shifts. And we have history on our side. What we do know is that when people cannot explain it cyclically, they always come up with “this time it is different” theories. So here we are again. Nor do we know if a crash is imminent or if we will have a drawn-out and painful path back toward more sane valuation ratios.

What we do know is that investors do not understand that their future returns are based on the price they pay. As fund manager John Hussman puts it: “The Iron Law of Valuation is that every security is a claim on an expected stream of future cash flows, and given that expected stream of future cash flows, the *current price* of the security moves opposite to the *expected future return* on that security. Particularly at market peaks, investors seem to believe that regardless of the extent of the preceding advance, future returns remain entirely unaffected. The repeated eagerness of investors to extrapolate returns and ignore the Iron Law of Valuation has been the source of the deepest losses in history.”

In any case we are not going to sacrifice our investment standards and thus let our fund portfolio be a byproduct of irrational decisions. It is extremely difficult to stay patient in this unprecedented environment. It is very painful to wait, but waiting (and keep on searching for investment opportunities) we will do.

(More on all of this below.)

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	-1,59	-2,00	-0,44							-1,63
Msci world	-0,31	4,74	0,06	-2,54	0,49	-1,58							0,71
Eurostoxx 50	-1,83	2,75	4,84	-1,74	3,94	-3,20							4,55

*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.

	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

Jus don't kill your children!

Don't lose clients' capital. There have been nights when I'm cutting up cucumber snacks for my two kids, after coaching two baseball practices and while reviewing their homework, and navigating dinner time, and they whine to me about video game time and what a terrible dad I am, and I look at the knife ... and remind myself of a fairly basic rule at the center of parenting: don't kill your children. It's the same with client capital. Just don't lose it.

The permanent loss of client's capital is like killing your children.

- <http://thepatientinvestors.blogspot.com>

Risk. A word that is rarely mentioned in the investment world, and now – it seems – almost completely forgotten after the bull market in (U.S.) stocks turned 8 years last March. Risk has once again become a very dirty word.

Risk is not deviation from a benchmark. Risk is not volatility. Risk is the chance and magnitude of permanent loss of capital. It is the probability of an unfortunate clash between a negative event and a lack of (a big enough) margin of safety, resulting in a permanently negative financial outcome. We can ride out volatility, we can accept deviation of a benchmark – two things that only value investors and other kindred spirits can live with – but we never get a chance to undo a permanent loss of capital.

S&P 500 Bull Markets Since WWII

	Months it lasted	Total % gain
10/1990-03/2000	113	417
3/2009-unknown	96	249
6/1949-8/1956	86	267
10/1974-11/1980	74	126
08/1982-08/1987	60	229
10/2002-10/2007	60	101
10/1957-12/1961	50	86
5/1962-2/1966	44	80
5/1970-1/1973	32	74
12/1987-7/1990	31	65
10/1966-11/1968	26	48
5/1947-6/1948	13	24

Source: CFRA/S&P Global

FORTUNE

source: <http://fortune.com/2017/03/09/stock-market-bull-market-longest/>

The only risk that other market participants – note that we do not call them investors – really care about is the deviation of their respective benchmarks (relative return risk). Our number one goal as your investment manager is to always focus on the real risk of every investment, i.e. the downside of every investment, so to not to lose your and our capital (i.e. permanent, not temporary mark-to-market loss of capital). The upside, contradictorily, takes second place to the downside. Focus on the downside is the Sam Zell mantra we repeat to ourselves daily. We consistently try to achieve this goal by not doing anything stupid. But trying not to do anything stupid might actually and ironically look very stupid... sometimes for an uncomfortably long time.

A telling anecdote:

During a podcast interview – Steve Pomeranz’s “Great Investors” podcast series – Monish Pabrai talks about Charlie Munger’s statement that the big money is not made by buying and selling, it’s in the waiting. Mohnish Pabrai explains the “waiting” credo from Charlie Munger with a story about how Munger was a regular reader of Barron’s magazine for 50-something years, and then finally he decides to make one investment in an auto parts company called Tenaco. He invested 10 million usd in Tenaco stock and another pile in some of their distressed bonds, and then a couple of years later he sells it for 80 million usd. He turns around and gives the 80 million us to a talented manager named Li Lu who was focused on Asian markets. That fund is now worth about 500 million usd. In a span of about 17 years – or 50+ years if you want to go back to all those decades of patiently waiting on the sidelines – Munger made two decisions that led him to a return of 50 times his original investment. That’s the kind of waiting that Munger is talking about, Mohnish claims.

Over the years we have come to realize that doing far fewer and simpler things greatly increases our chances of not doing anything stupid. If you are looking for a credo for the ideal investment manager, you might want to consider the two following statements:

You only have to do a very few things right in your life so long as you don’t do too many things wrong.
- Warren Buffett

Wesco continues to try more to profit from always remembering the obvious than from grasping the esoteric. ... It is remarkable how much long-term advantage people like us have gotten by trying to be

consistently not stupid, instead of trying to be very intelligent. There must be some wisdom in the folk saying, 'It's the strong swimmers who drown.'

- Charlie Munger

A telling fact:

More than two-thirds of Berkshire's outperformance over the S&P was earned during down years. This is the fruit of Buffett and Munger's "Don't lose" philosophy. It's the losing ideas avoided, as much as the money made in bull markets that has built Berkshire's superior wealth over the long run." (source: University of Berkshire Hathaway: 30 Years of Lessons Learned from Warren Buffett & Charlie Munger at the Annual Shareholders Meeting by Daniel Pecaut, Corey Wrenn)

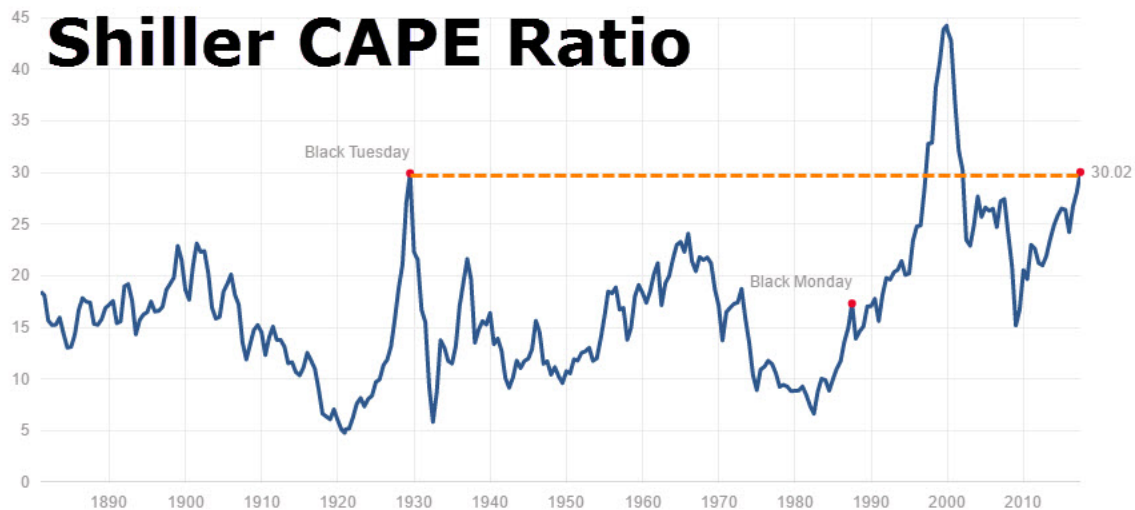
The current bull market

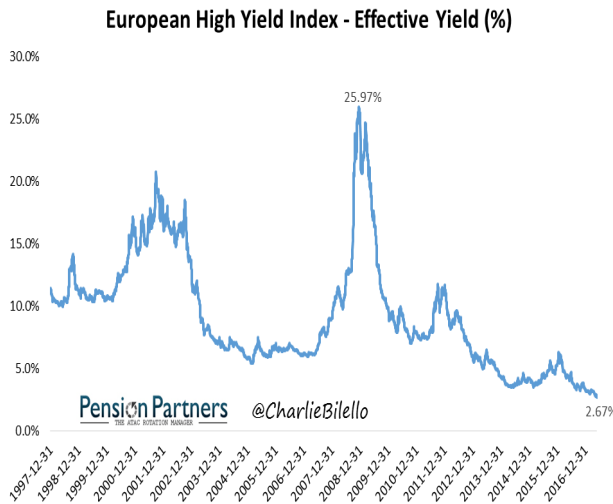
The world is a mere succession of fortunes made and lost, lessons learned and forgotten and learned again.

- *The Fish That Ate the Whale: The Life and Times of America's Banana King*, Rich Cohen

The average Shiller CAPE multiple is 16,7. Currently, the Shiller Cyclically Adjusted PE Ratio is around 30 – eclipsed now only by the dot.com bubble in the late 1990s. Government bond yields are at historically low (negative) levels. And European junk bonds are at an all-time low yield of 2.67%!

Just watch the following graphs in disbelief! We have nothing more to add.





Global 2-Year Yields (%)			
Country	2-year Yield (Today)	US 2-Year Yield	Difference
SWITZERLAND	-0.84	1.29	-2.13
SWEDEN	-0.71	1.29	-2.00
GERMANY	-0.71	1.29	-1.99
FINLAND	-0.67	1.29	-1.95
NETHERLANDS	-0.65	1.29	-1.93
AUSTRIA	-0.61	1.29	-1.89
BELGIUM	-0.56	1.29	-1.85
FRANCE	-0.56	1.29	-1.84
DENMARK	-0.54	1.29	-1.83
IRELAND	-0.41	1.29	-1.70
SPAIN	-0.27	1.29	-1.56
JAPAN	-0.16	1.29	-1.44
ITALY	-0.09	1.29	-1.37
UNITED KINGDOM	0.09	1.29	-1.20
PORTUGAL	0.24	1.29	-1.05
HONG KONG	0.66	1.29	-0.63
CANADA	0.70	1.29	-0.59
SINGAPORE	1.20	1.29	-0.09
UNITED STATES	1.29	1.29	0.00
AUSTRALIA	1.57	1.29	0.28
SOUTH KOREA	1.61	1.29	0.32
NEW ZEALAND	1.95	1.29	0.66
POLAND	1.95	1.29	0.66
PHILIPPINES	3.35	1.29	2.06
CHINA	3.63	1.29	2.35
GREECE	5.91	1.29	4.62
INDIA	6.55	1.29	5.27
RUSSIA	8.20	1.29	6.91
BRAZIL	9.68	1.29	8.39

Pension Partners @CharlieBilello

What?! (part 1)

Two amazing facts to ponder from Grant's Interest Rate Observer Almost Daily (16th of June 2017):

Amidst the onslaught, Kroger shares have taken a dive, down a cool 26% over the past two days to their lowest level since April 2014. It's new, snack-sized market capitalization of roughly \$20 billion compares to just under \$2 billion in net earnings for fiscal 2016. That trailing 12 month price/earnings ratio of around ten times compares to nearly 23 times in the S&P consumer staples index.

The factors which helped push Kroger's valuation downward were no secret; the dual German price-dicers (both already established and formidable players in Europe) announced their plans to expand stateside months ago. Jeff Bezos and Amazon have long been rumored to be expanding into brick and mortar retail. So, too, were Wal-Mart's new ultra-aggressive pricing strategies known to investors in February (Reuters had the story). For its part, *Grant's* noted this trend in the March 24th piece "Price war for Warren Buffet".

(1) It's almost enough to give hope to the conscientious active manager, whose ranks have plainly thinned amidst the encroaching popularity of low cost indexation and exchange traded funds. J.P. Morgan estimates that **only 10% of stock market** trades are currently conducted **by traditional, "discretionary" money managers**. → 9 out of every 10 shares traded on the major U.S. markets is being done so with no regard for price or value!

(2) Nowadays, few people even bother to read company filings. A study by University of Notre Dame economists Bill McDonald and Tim Loughran (via the *Wall Street Journal*) found that **the average 10-K annual report gets downloaded from the SEC's website fewer than 30 times between the day it is filed and the next**.

What?! (part 2)

Over the last year, few have sounded the passive alarm as loudly as Steven Bregman, co-founder of investment advisor Horizon Kinetics. He believes record ETF inflows have generated “the greatest bubble ever” – “a massive systemic risk to which everyone who believes they are well-diversified in the conventional sense are now exposed.

With Exxon as his example, Bregman puts the crisis of price discovery in a real- world context:

*“Aside from being 25% of the iShares U.S. Energy ETF, 22% of the Vanguard Energy ETF, and so forth, Exxon is simultaneously a Dividend Growth stock and a Deep Value stock. It is in the USA Quality Factor ETF and in the Weak Dollar U.S. Equity ETF. Get this: It’s both a Momentum Tilt stock and a Low Volatility stock. **It sounds like a vaudeville act...** Say in 2013, on a bench in a train station, you came upon a page torn from an ExxonMobil financial statement that a time traveler from 2016 had inadvertently left behind. There it is before you: detailed, factual knowledge of Exxon’s results three years into the future. You’d know everything except, like a morality fable, the stock price: oil prices down 50%, revenue down 46%, earnings down 75%, the dividend-payout ratio almost 3x earnings. If you shorted, you would have lost money...**There is no factor in the algorithm for valuation.** No analyst at the ETF organizer—or at the Pension Fund that might be investing—is concerned about it; it’s not in the job description. There is, really, no price discovery. And **if there’s no price discovery, is there really a market?**”*

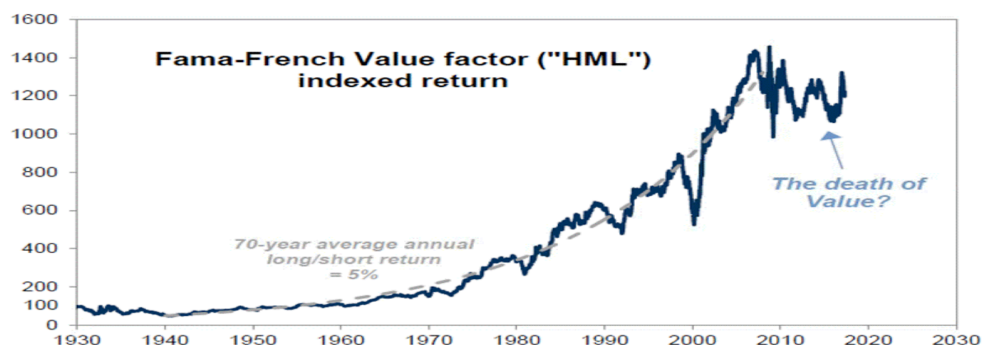
“It seems algos are programmed with a bias to buy. Individual stocks have risen to ludicrous levels that leave rational humans scratching their heads. But since everything always goes up, and even small dips are big buying opportunities for these algos, machine learning teaches algos precisely that, and it becomes a self-propagating machine, until something trips a limit somewhere.”

Source: <https://latest.13d.com/has-the-meteoric-rise-of-passive-investing-generated-the-greatest-bubble-ever-257200fe5caf>

What?! (part 3)

Value investing is dead according to a new report from Goldman Sachs’ Portfolio Strategy Research Team.

Exhibit 1: The long-term trend of strong value performance has broken this cycle



source: <https://www.bloomberg.com/news/articles/2017-06-08/goldman-sachs-mulls-death-of-value-investing-after-losing-decade>

In a research report issued earlier this month, GS shows that **over the past decade the value factor has suffered a cumulative 15% loss, declining in six of the last ten years.** This dire performance has certainly proved to be a large black mark on the factor’s long term performance. **From 1940 to 2007** the value factor pioneered by Fama and French posted an average annual long/short return of 5%, making it **the**

best performing investment strategy in history. However, as noted above **over the past decade the strategy has lost its shine experiencing an average annual loss of 2%.**

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

In the first quarter of this year we invested in Tropicana Entertainment (TPCA). TPCA is the owner and operator of eight regional casino and entertainment properties. The company has a solid balance sheet – a very rare thing in the industry – with total net debt of only 0,1x EBITDA versus competitors with substantial net debts (on average over 5x EBITDA).

Carl Icahn – through Icahn Enterprises (IEP) – owned 72,5% of the shares at the time of our investment. Because of IEP's high ownership, TPCA's free float available to the public is very small and the shares traded rather infrequently over the counter. This limited the number and size of potential investors despite TPCA being a company with a 790 mio usd market cap at the time of our investment.

Icahn Enterprises (IEP) each quarter puts out an indicative NAV. IEP valued Tropicana based on market comparables due to lack of material trading volume (cf. supra). In the first quarter of 2017 Tropicana was valued at approximately 8,5-9x EBITDA.

We believed that next to having bought TPCA at a substantial margin of safety (2017 ev / ebitda of less than 5) that IEP could possibly make an offer to acquire the remaining outstanding shares.

And this is what fortuitously happened at the end of the second quarter, when IEP issued a tender offer for the remaining shares of Tropicana Entertainment.

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 discipline needed to stick to an investment strategy:

<https://www.bloomberg.com/gadfly/articles/2017-07-05/investors-find-it-hard-to-stay-course-in-strange-winds>

A must read about GE and the myth of the CEO superhero:

https://www.washingtonpost.com/news/wonk/wp/2017/06/16/on-ge-and-the-myth-of-the-ceo-superhero/?utm_term=.23ed3c7dfde1

A must read about bubbles:

<http://www.collaborativefund.com/uploads/Collaborative%20Fund%20--%20The%20Reasonable%20Formation%20of%20Unreasonable%20Things2.pdf>

A must read about the question if this is a bull market or a mania?

<https://www.wsj.com/articles/for-whom-the-bell-tolls-sell-1499029457>

A must read about compared with the early 2000 stock market bubble, the lowest P/E stocks in the S&P 500 look expensive:

<https://www.bloomberg.com/gadfly/articles/2017-06-27/don-t-worry-about-expensive-stocks-worry-about-cheap-ones>

Administration and the next update

In the meantime, please email or call us with any questions you have.

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

Enjoy the summer!

The Tartaros Team

2 Fund Overview

2.1 General Overview (end of Q2 2017)

	Asset Class
Equities	61,50%
Preferred Equities	1,58%
Corporate Bonds	1,04%
Cash	35,88%
	100,00%

	Currencies
USD	51,47%
EUR	20,26%
CAD	10,45%
YEN	9,94%
HKD	6,94%
NOK	0,94%
	100,00%

	Industry (as % of Fund)
Mining	6,73%
Services	11,83%
Energy	1,55%
Telco & Info	3,28%
Basic Industries	12,03%
Mining Services	0,40%
Retail-Wholesale	3,94%
Real Estate	20,31%
Pharma	3,27%

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:

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

<i>Position</i>	<i>% of portfolio</i>
Cash	35,88%
Investment 1	6,50%
Investment 2	4,41%
Investment 3	4,38%
Investment 4	4,10%
Investment 5	3,25%

It should be noted that all numbers are approximations.

2.3 NAV series

TARTAROS FIS SCA GLOBAL VALUE CL A CAP	212,583
TARTAROS FIS SCA GLOB VALUE S CAP 31.12.16	98,367
TARTAROS FIS SCA GLOB VALUE T CAP 310317	96,021

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