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# 1 General Overview

Friday 6 October 2017



*"When things are going right, we all need a 26-year-old. There's nothing better than a 26-year-old in a great bull market especially in a bubble. They're fearless. They don't know. It will never end. They will tell you why it will never end. They know that it cannot end and will never end. So in the bull market, you've got to have a 26-year-old. But when they end you don't want the 26-year-old around... they make a lot of money. They don't know why they made money. So they don't know why they lose money. They don't know what happened."*

- Jim Rogers

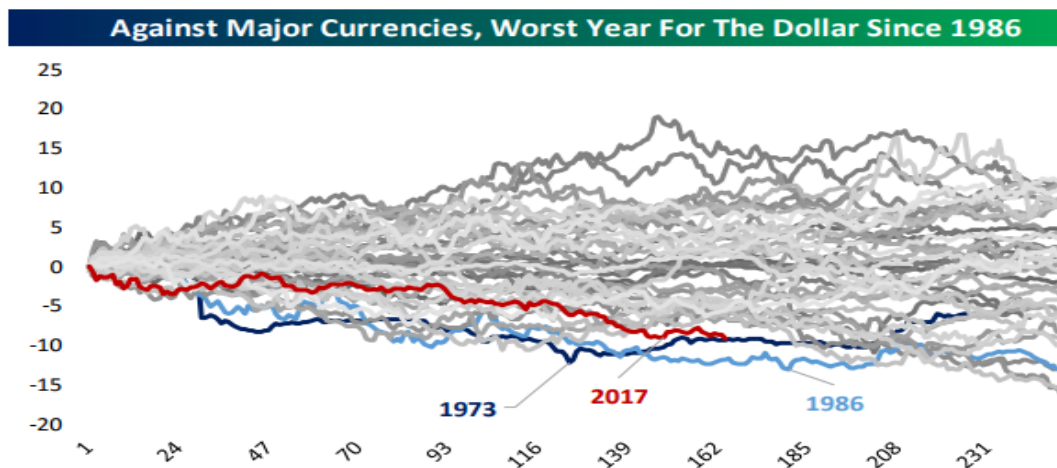
Dear Partners:

The Fund finished the third quarter of 2017 -2,67% in the red, versus +3,14% for the Eurostoxx 50 and versus +0,55% for the MSCI World Index. The Net Asset Value of the Fund is 206,91 (cf. part 2.3 for all the NAVs of all series). It should be noted that we started the final quarter of the year with a good first week, since we are already up more than 1% for the 4<sup>th</sup> quarter.

In the third quarter the already large headwind from currency movements increased, again caused by further strengthening of the euro against other currencies in the portfolio, and in particular the extremely strong rise of the euro against the usd. The fund has lost almost 9% due to the currency effect this year.

Currencies can reverse fast. After all, entering 2017, everybody was convinced that the usd would go to parity against the euro. Today everybody talks about de-dollarization of the world. What a difference only 9 months can make.

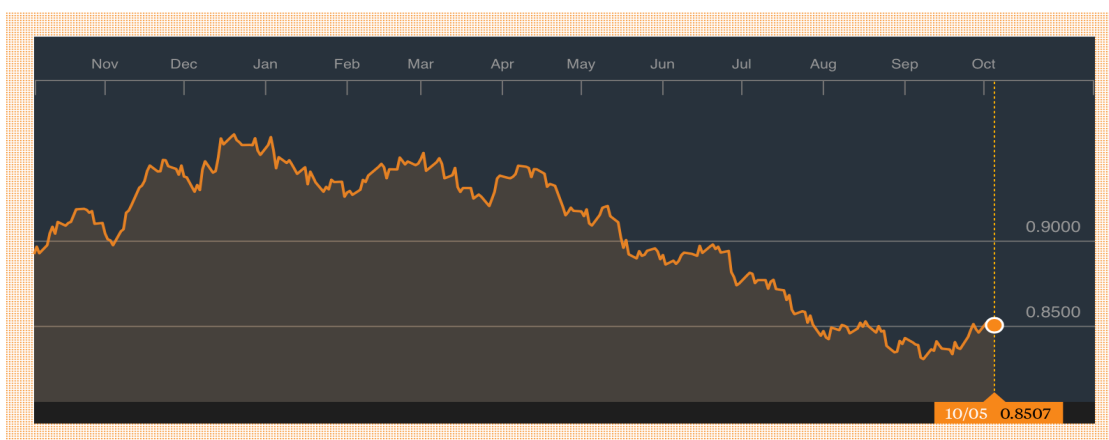
Forecasting currency swings consistently, especially in the short run, is a fool's game. Currencies trade in pairs and are heavily influenced by relative interest rates and expectations about relative interest rates.



source: Bespoke Investment Group

There are a host of unpredictable factors that influence both interest rates and interest rate expectations. Central bankers, for instance, play a huge role in the setting of interest rates. And to call central bankers unpredictable would be an understatement. How many times have Mario Draghi or Janet Yellen said one thing and done another? In any case, in the long run – that dreadful term again – currency movements cancel themselves out.

As mentioned in the previous investment letter, currency movements have helped us in other years, but this year this is clearly not the case. As shown above, this was the worst year-to-date movement for the usd through the end of September since 1986, the year following the Plaza Accord agreement to devalue the usd.



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

	End Q2		End Q3	
	Return (USD)	Return (EUR)	Return (USD)	Return (EUR)
American Homes Preferred - A	3,61%	-3,76%	5,22%	-5,53%
American Homes Preferred - C	3,63%	-3,38%	6,39%	-4,12%
High Income Opportunity Fund	2,54%	-4,39%	5,29%	-5,10%

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)\*

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	-2,03	-0,55	-0,11				-4,26
Msci world	-0,31	4,74	0,06	-2,54	0,49	-1,58	-1,60	0,45	1,73				1,26
Eurostoxx 50	-1,83	2,75	4,84	-1,74	3,94	-3,20	0,25	-1,77	5,18				8,28

	<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	2,62	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

\*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.

### Survival is the only road to riches...

*In general, survival is the only road to riches. Let me say that again: Survival is the only road to riches. You should try to maximize return only if losses would not threaten your survival and if you have a compelling future need for the extra gains you might earn.*

*The riskiest moment is when you're right. That's when you're in the most trouble, because you tend to overstay the good decisions. Once you've been right for long enough, you don't even consider reducing your winning positions. They feel so good, you can't even face that.*

*- Peter Bernstein*

What investors presently take as a benign environment of great market returns and extremely low volatility is probably the most overvalued point in the history of financial markets (cf. *infra* What?! part 1, 2, 3 and 4). We are experiencing unprecedented times in financial markets. Quasi non-existent volatility and quick reversals after any decline in both the bond and the stock markets over the past 9 years has led the investment community at large to believe – once again – that there is no real downside to investing.

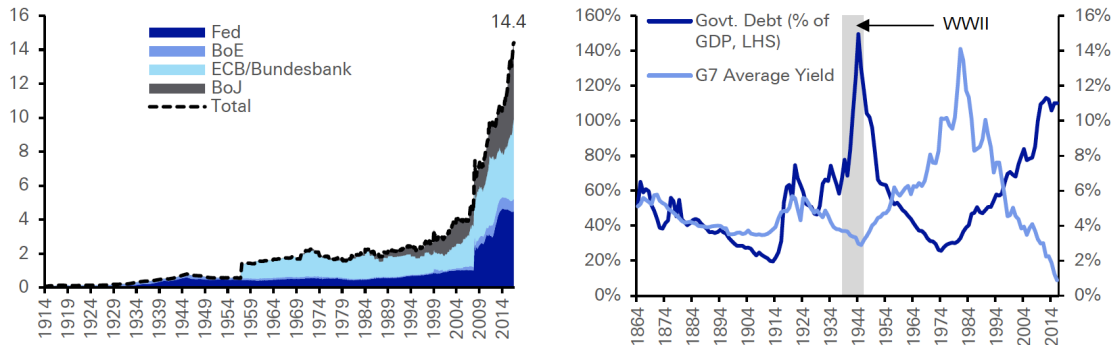
High valuations can persist for years, but investors must recognize that they are betting (not investing) on inflated prices to achieve, at best, low single digit returns. In the end, no one knows how this will turn out. But now, more than ever, is the time to proceed with caution.

So we continue to eat our own cooking, not out of habit, nor because we should, but because we have great confidence in our value investment strategy.

### What?! (part 1)

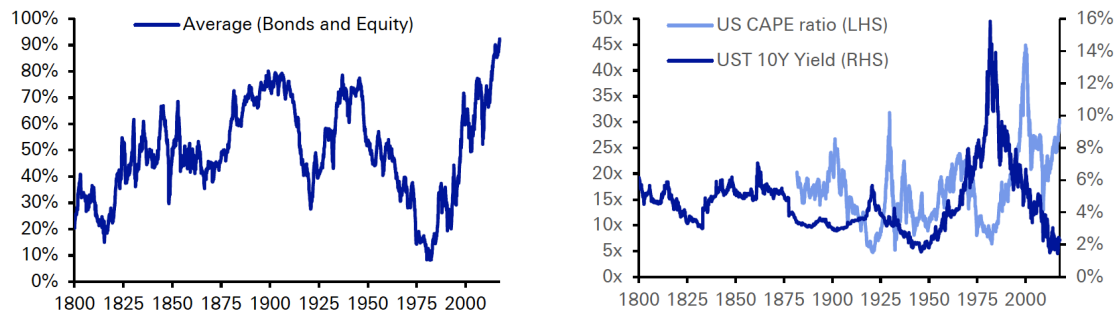
We have unparalleled central bank balance sheet sizes at a time of record peacetime government debt and multi-century record low yields.

Figure 5: Central Banks Assets inflation adjusted to June 2017 price levels (left) and G7 Government Debt (% of GDP) with Average G7 10Y Government Bond Yield (right)



All this is occurring at a time of extremely high global asset prices and still low economic growth relative to the past.

Figure 7: Percentile Valuations of 15 DM Bond and Equity Markets back to 1800 (left) and US CAPE ratio vs. US 10Y yield (right)



source: Long-Term Asset Return Study, The Next Financial Crisis, Deutsche Bank, September 2017

“In his classic, “The Intelligent Investor”, first published in 1949, Benjamin Graham, a Wall Street sage, distilled what he called his secret of sound investment into three words: “margin of safety”. The price paid for a stock or a bond should allow for human error, bad luck or, indeed, many things going wrong at once. In a troubled world of trade tiffs and nuclear braggadocio, such advice should be especially worth heeding. Yet rarely have so many asset classes—from stocks to bonds to property to bitcoins—exhibited such a sense of invulnerability.



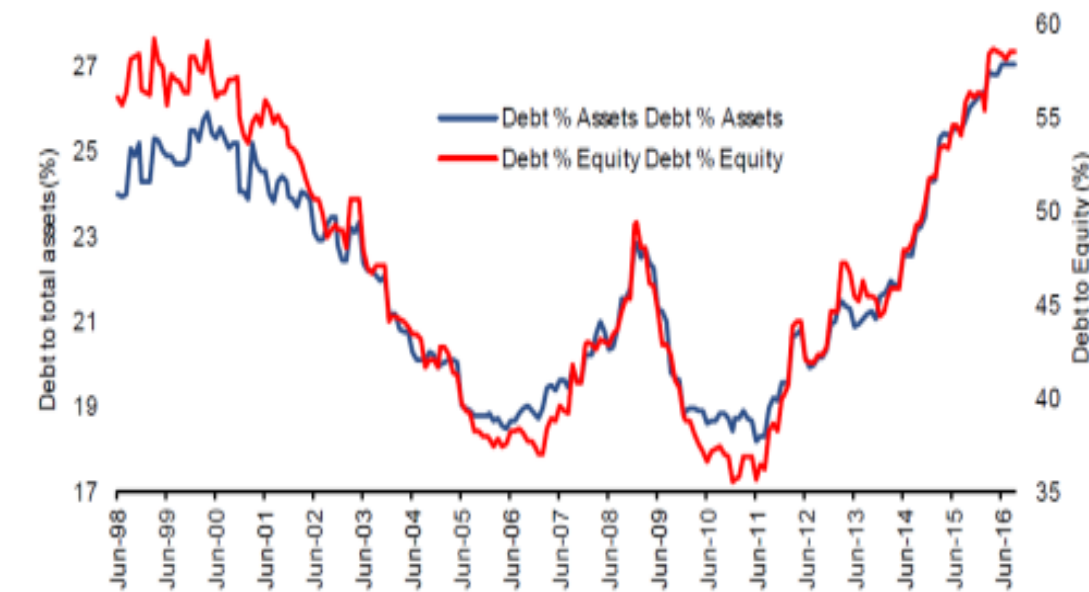
Dear assets are hardly the product of euphoria. No one would mistake the bloodless run-up in global stockmarkets, credit and property over the past eight years for a reprise of the “roaring 20s”, or even an echo of the dotcom mania of the late 1990s. Yet only at the peak of those two bubbles has America’s S&P 500 been higher as a multiple of earnings measured over a ten-year cycle. Rarely have creditors demanded so little insurance against default, even on the riskiest “junk” bonds. And rarely have property prices around the world towered so high. American house prices have bounced back since the financial

crisis and are above their long-term average relative to rents. Those in Britain are well above it. And in Canada and Australia, they are in the stratosphere. Add to this the craze for exotica, such as cryptocurrencies (see Free exchange), and the world is in the throes of a bull market in everything.”

Source: [www.economist.com/news/leaders/21730019-ultra-loose-monetary-policy-coming-end-it-best-tread-carefully-asset-prices-are](http://www.economist.com/news/leaders/21730019-ultra-loose-monetary-policy-coming-end-it-best-tread-carefully-asset-prices-are)

## What?! (part 2)

### US median leverage ratios in the US are very high (ex energy and financials S&P 1500 universe)



Source : SG Cross Asset Research/Equity Quant, Thomson Reuters Datastream

### What?! (part 3)



source: (via zerohedge) high grade corporate bond spreads as measured by the [BoA/ML Corporate Master Index OAS](#)

### What?! (part 4)

“Irish buys are smiling. Yesterday, the Republic of Ireland issued €4 billion worth of five-year debt, priced to yield negative-0.008%, in a deal that was 2.5 times oversubscribed.

That feat, remarkable on its face, is made even more so in contrast to the Republic’s pronounced struggles during the 2011 European sovereign debt crisis. Amidst an ailing banking system that led to the demise of the 134-year old Irish Nationwide Building Society and forced the government to supply bailout funds to Bank of Ireland and Anglo Irish Bank to forestall a similar fate, Irish sovereign borrowing costs spiked to panic-type levels. Yields on 10-year government debt jumped above 14% in the summer of 2011, with five-year yields reaching even higher to nearly 17%. Just over six years later, investors are clamoring to lose money (it’s a sure thing if the bonds are held to maturity) by financing the same country.” (source: Grant’s Interest Rate Observer)

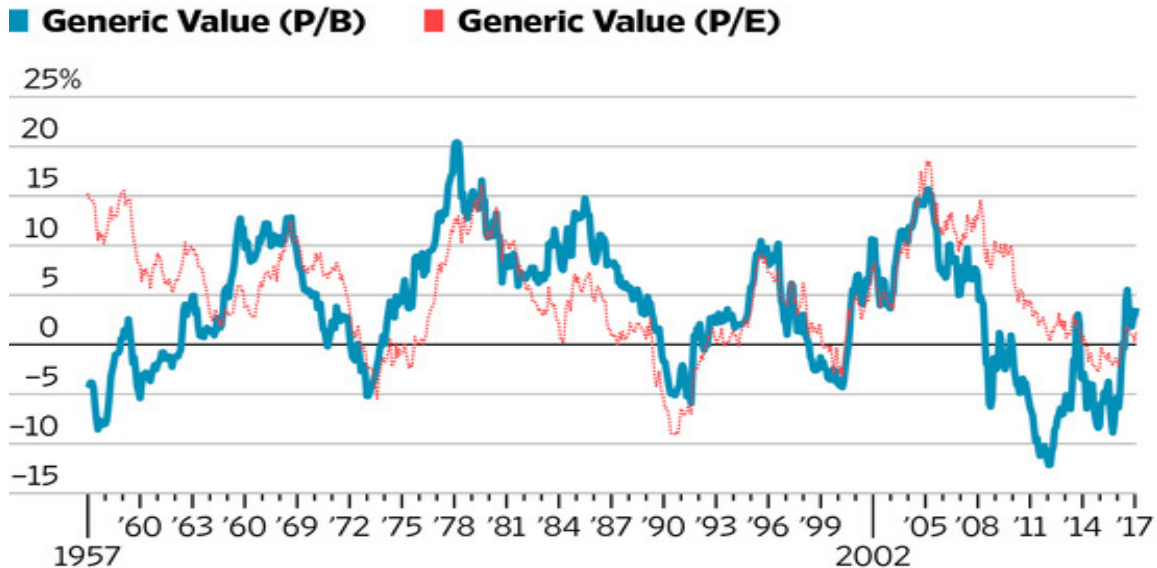
### What?! (part 5)

*“Here is where infinite patience is needed. Sitting through periods when your stock is not moving while other securities advance rapidly is not only painful but requires shuperhuman effort. It hurts.”*

- Maurece Schiller, *Fortunes in Special Situations*

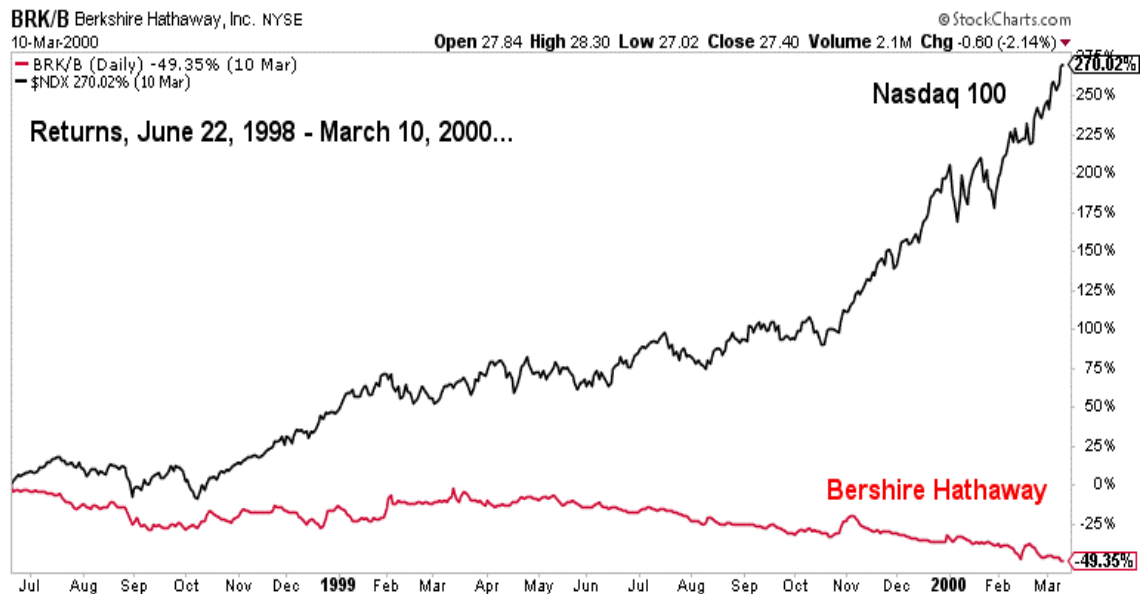
2017 is shaping up once again to be brutal for value-oriented investment strategies. This is a continuation of the longest performance drought ever for (generic) value investing as an investment strategy. Psychologically wired to avoid discomfort and emotional pain, it is very tempting to ask whether an investment model is broken

## Five-Year Rolling CAGR Relative to S&P 500



Source: Alpha Architect

"The chart highlights multiple five-year periods where a value investor can expect to be underwater relative to the S&P 500. A positive reading means value outperformed over the five-year trailing period; a negative reading implies the opposite. (The results run from June 30, 1952 to June 30, 2017)



Talk about pain. Imagine underperforming the market over a five-year cycle, and possibly enduring this pain on multiple occasions over a lifetime of investing. On the flip side, over this time period generic value with P/B ratios earned 14.05%, generic value with P/E ratios earned 15.94%, and the S&P 500 earned 10.85%." (source: Wall Street Journal & Alpha Architect)

So extreme patience is more often than not needed: every value investor, even Warren Buffett (cf. supra), needs to endure the pain, most of the time for an uncomfortably long time, to get the gain.

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

In the third quarter we sold two investments: Greenlight Re (GLRE) and Dell Technologies (DVMT).

Dell Technologies, an investment from the 4<sup>th</sup> quarter of 2016, is a tracking stock of unlisted Dell's economic interest in the VMware business (cf. Tartaros Investment Letter 2016 Q4 for more information).

GLRE is best understood as a hedge fund disguised as an insurance company. 100% of GLRE's investment portfolio – the float of the insurance business - is managed by value investor David Einhorn, in the exact same long-short equity strategy of his fund Greenlight Capital. Both the investment strategy and the insurance business disappointed and seriously underperformed.

<i>Disinvestment</i>	<i>Entry Price</i>	<i>% of Portfolio</i>	<i>Return</i>
Dell Technologies	50 usd	1,68%	32,94%
Greenlight Re	23 usd	2,25%	4,8%

**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 current state of the financial markets:

<https://www.oaktreecapital.com/docs/default-source/memos/there-they-go-again-again.pdf>

A must read for the next time you think investing is all about certainties and not about probabilities:

<https://pensionpartners.com/put-these-charts-on-your-wall/>

A must read about how in the world of investing emotions are your worst enemy:

<http://jimoshaghnessy.tumblr.com/post/165518683994/why-selling-a-big-position-of-puts-the-day-before/amp>

A must read about how investors should urgently stop relying so heavily on past performance to choose investment managers:

<https://www.researchaffiliates.com/content/dam/ra/documents/630%20The%20Folly%20of%20Hiring%20Winners%20and%20Firing%20Losers.pdf>

**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 January at the latest.

As always, we are grateful for your trust and patience, and the opportunity to manage a portion of your hard-earned money.

The Tartaros Team

## 2 Fund Overview

### 2.1 General Overview (end of Q3 2017)

	Asset Class
Equities	59,17%
Preferred Equities	1,63%
Corporate Bonds	2,54%
Cash	36,66%
	100,00%

	Currencies
USD	51,14%
EUR	18,37%
CAD	12,65%
YEN	10,35%
HKD	6,52%
NOK	0,97%
	100,00%

	Industry (as % of Fund)
Mining	7,01%
Services	6,06%
Pharma	3,28%
Energy	1,39%
Telco & Info	7,86%
Basic Industries	8,38%
Mining Services	0,46%
Retail-Wholesale	8,91%
Real Estate	19,58%

### 2.2 Fund Positions

We have no short positions and no leverage. We are invested long in 32 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	36,66%
Investment 1	6,15%
Investment 2	5,24%
Investment 3	4,96%
Investment 4	4,44%
Investment 5	4,11%

It should be noted that all numbers are approximations.

### 2.3 NAV series

TARTAROS FIS SCA GLOBAL VALUE CL A CAP	206,914
TARTAROS FIS SCA GLOB VALUE S CAP 31.12.16	95,744
TARTAROS FIS SCA GLOB VALUE T CAP 310317	93,460

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